Company Number: 07193686

Premier Lotteries UK Limited

Group and Company Annual Report and financial statements for the year ended 31 March 2018

Contents

Premier Lotteries UK Limited

Strategic Report

The directors present the Strategic Report of Premier Lotteries UK Limited (the 'Company') together with its subsidiaries (the 'Group') for the year ended 31 March 2018. The Company's sole objective is to provide financing to Group companies, which include the following subsidiaries: Camelot UK Lotteries Limited ('Camelot'), Camelot Global Services Limited ('CGSL'), Camelot Business Solutions Limited ('CBSL'), Camelot Global Lottery Solutions Limited ('CGLSL') formerly Camelot Strategic Solutions Limited, Camelot Global Services (North America) Inc (an entity incorporated in the USA) ('CGSNA') and Camelot Illinois LLC (an entity incorporated in the USA) ('CI'). The Global Group includes CGSL, CGLSL, CGSNA and CI.

Strategy

The Group's principal purpose is to change lives – of the winners created through its games, and the people and projects supported by National Lottery funding. The Group achieves this through growing sales in a socially-responsible manner, which, under the aligned model set out in the third licence, maximises returns for National Lottery Good Causes and for the Group's shareholders. During the year, the Group conducted an in-depth review of its National Lottery strategy and operations, including its commercial plans to boost sales performance, and its investment in technology and systems. As a result of the review, the Group identified four key areas where it needed to take action:

1. reinvigorating The National Lottery brand to make it more relevant and visible;
2. improving its range of games to create a more balanced portfolio that offers something for everyone;
3. investing significantly in retail to boost engagement and better reflect the changing ways in which people are now shopping; and
4. upgrading its digital services to give players an even better experience.

The Group have diversified and also focus on providing technical expertise and products to lottery operators in the UK and abroad.

Risks and opportunities

The third operating Licence provides the Group with significant opportunities, as well as some significant risks and uncertainties, and these have been incorporated into the Group's risk mitigation plans. The Group believes its key risks and challenges to be below and has detailed mitigation plans in place for each:

Player Engagement - The relevance of The National Lottery brand within the fabric of society has declined and, unless this is restored, will lead to a decline in sales and returns to Good Causes

Corporate Reputation - The reputation of The National Lottery and the Group could be damaged through actions that are perceived to be dishonest, disrespectful or incompetent, leading to a loss of potential business or reduction in sales.

Regulatory Relationship - If the Group fails to ensure regulatory compliance and maintain an effective working relationship with the Gambling Commission (GC), it could lead to the imposition of increased restrictions and compliance requirements on the Group.

Key Supplier Reliance – The Group suffers service disruption or an operational failure due to the inability of suppliers to provide it with their service.

Licence Compliance - Failure to comply with the third licence results in significant financial penalties and reputational consequences.

Retailer Environment - Disenfranchised retailers lead to poor in-store execution, lack of confidence and poor support for The National Lottery brand, allowing competitors to enter into the retail space.

Competitor Threat - Increased competition from large-scale society lottery operators and from other gaming suppliers, in online and mobile channels, leading to a reduction in sales and returns to Good Causes.

Cyber Attack - The risk that unauthorised access to its systems or data from either an external or internal source leads to reputational and/or commercial damage and potential regulatory penalties.

Strategic Report continued

Player Protection - Failure to proactively address responsible play would have a detrimental effect on the reputation of the Group and lead to commercial impacts as a result of reduced confidence from the Gambling Commission in the Group's ability to prevent excessive and underage play.

Key performance indicators (KPIs)

The Group's primary financial KPIs are sales, returns to Good Causes, profit and operating cash flow – all of which are monitored by the Executive Team and Board on a regular basis. Given the straight forward nature of the Global Group, the directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development and performance of the Global Group. In addition, Camelot is required to maintain and report on specific standards of performance on player accessibility, including terminal sales availability and the service provided to players. Failure to meet specific targets can result in a breach of the operating licence. The Group's financial performance is discussed below.

Financial performance

The Group's profit before income tax was £43.8m (2017: £50.0m) for the financial year and profit after income tax was £34.0m (2017: £40.2m).

Net income

Net income for the year was £697.5m (2017: £667.9m). This was mainly comprised of net income of £656.3m (2017: £655.0) from Camelot UK Lotteries Limited, being gross ticket sales disclosed net of lottery duty, prizes and contributions to Good Causes, as is consistent with the gaming industry. Other revenue of £41.2 (2017: £12.9m) has increased during the year mainly driven by the Global Group winning a ten year contract as Private Manager of the Illinois State Lottery in October 2017. This will be operated by Camelot Illinois LLC, which is 100% owned by the Company.

Retailers' and other commission

Retailers' and other commissions for the year totalled £293.9m (2017: £299.5m). This includes both commission paid to retailers and bank fees paid on interactive sales transactions.

The commission rate paid to retailers for Scratchcard sales is 6% and 5% for draw-based games. In addition, retailers receive 1% commission for prizes paid out above £10 for Scratchcards and £25 for draw-based games, both up to and including £500. The Post Office is able to validate prizes between £500 and £50,000, for which it continues to receive an annual payment.

Gaming systems and data communication costs

Gaming systems and data communication costs increased to £121.1m for the year (2017: £114.0m).

Gaming systems and data communication costs include the cost of maintaining software, terminals and the communications network, all expenditure associated with the purchase of National Lottery Scratchcard tickets, point-of-sale and other consumables, together with the depreciation of gaming systems, terminal and data communications equipment.

Administrative expenses

Administrative expenses were £236.3m (2017: £202.1m) and consisted of advertising and marketing expenditure, depreciation, amortisation, staff, facilities, impairment and all other administrative costs. The increase in staff costs that was largely driven by the investment in the retail channel to boost retailer advocacy and also to increase operational efficiency within the Group.

Finance income and expense

The Group has financing facilities consisting of the Group's term loan totalling £175.0m (2017: £220.0m). The Group also has Revolving Credit Facilities totalling £60.0m (2017: £60.0m) of which nil (2017: nil) was utilised at the end of the year. Net finance expense during the year amounted to £6.9m (2017: £8.5m), the average yield on investment being approximately 0.62% (2017: 0.30%). Strict controls apply to treasury operations, which are reviewed regularly.

The investment policy adopted is aligned to that approved by Camelot's Audit, Risk and Security Committee and the Board. Funds are only deposited with banks which hold a strong credit rating and which meet the Group's treasury policy criteria.

The net finance expense includes loan interest charges of £5.4m (2017: £6.6m) and amortisation of loan fees of £0.6m (2017: £0.7m) incurred on term loans.

Finance income of £0.3m (2017: £0.1m) arose from interest on bank deposits.

Taxation

The net corporation tax charge for the year was £9.8m (2017: £9.8m). The total corporation tax paid by the Group amounted to £13.0m (2017: £16.0m). Further detail is provided in note 7 to the financial statements.

Dividends

Dividends of £nil were paid during the year (2017: £21.9m) as detailed in note 8. No final dividend has been proposed (2017: £nil).

Financial position at the year end

The Group reports total assets of £814.9m (2017: £687.2m) and has adequate resource, including undrawn facilities, to cover its net liability position.

Of intangible assets of £209.9m (2017: £221.1m) held on the balance sheet, £146.6m (2017: £169.4m) relate to goodwill and intangible assets acquired on the acquisition of Camelot and CGSL, which is stated net of £22.8m (2017: £22.9m) amortisation charged during the year.

Trade and other receivables consist mainly of the Euromillions deposit that provides security to other Euromillions participants for the Group's Euromillions prize payment obligations, trust receivables that are amounts due from Trust for unpaid prizes, trade receivables that primarily represent amounts due from retailers and other accrued income and prepayments.

Trade and other payables consist mainly of the Prize liability, representing unclaimed prizes at 31 March 2018, as well as advance receipts for future draws, lottery duty, amounts payable to the National Lottery Distribution Fund (NLDF) and other accruals and deferred income.

Non-current financial borrowings of £142.1m (2017: £194.5m) are due on the term loan and finance leases.

Our investment in technology

During the current year the Group has maintained the infrastructure to run The National Lottery and at the end of the financial year 44,587 lottery terminals were in operation across the Retail estate (2017: 45,296).

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

Terminal sales availability, a key performance indicator monitored monthly by the Group's regulator, was 99.96% (2017: 99.95%) ahead of the operating Licence target of 99.50%. In addition, system availability for playing games on the internet was 99.85% (2017: 99.90%) ahead of the operating Licence target of 99.50%.

Cash flows, cash and debt

The Group's cash flows, cash and debt are managed centrally. Net cash generated from operations was £130.2m (2017: £102.5m) which was impacted by working capital cash flows, mainly comprised of lottery ticket sales less prize payments, payments to the NLDF, and operating expenditure.

Strategic Report continued

During the year, the Group made repayments of £45.0m against term loan bringing the balance to £175.0m (2017: £220.0m). Other financing cash outflows include finance lease principal payments of £10.6m (2017: £8.3m). The Group received an equity investment of £15.2m in the financial year to acquire Camelot Illinois LLC.

The movement in working capital is mainly driven by the increase of both trust receivables (note 12b) and the prize liability (note 18a). In order to protect prize winners and players, the Group has set up certain trust accounts operated by The Law Debenture Trust Corporation plc, which acts as an independent trustee. An amount equivalent to prizes is deposited into a trust account on a weekly basis, as well as monies taken in advance and money held by interactive players in their on-line wallets. This money is held in trust until paid as a prize, or entered into a draw, and is under the control of the Trustees until this time. Interest earned on these accounts is primarily for the benefit of the NLDF.

At 31 March 2018, the Group had on deposit £9.4m (2017: £7.5m) of funds in a restricted cash trust accounts as a reserve for the protection of prize winners. Although the Group cannot currently withdraw these amounts until the end of the third operating Licence extension period, the interest on these accounts accrues to the Group.

As at 31 March 2018 the Group had Revolving Credit Facilities totalling £60.0m (2017: £60.0m) of which £60.0m (2017: £60.0m) was undrawn.

The Strategic Report was approved by the Board of Directors on 10 July 2018 and was signed on its behalf by:

Jo Taylor
Director
Premier Lotteries UK Limited
Company Number 07193686

Directors' Report

The Directors present their report with the audited consolidated financial statements of the Company, together with the Group for the year ended 31 March 2018.

Principal activities

The principal activities of the Group are as follows:

- Camelot's principal activity is the operation of The UK National Lottery in a socially responsible manner for the benefit of a number of good cause areas: arts, education, environment, health, heritage, sport and voluntary/charity (the 'Good Causes'). Camelot operates The National Lottery pursuant to an operating Licence granted by its regulator, the Gambling Commission (formerly the National Lottery Commission). The third operating Licence was granted on 1 February 2009 and will run to 2019, followed by a four year extension until 2023.

- CBSL provides business services to other Group companies through various departments including Corporate Responsibility, Human Resources, Finance, Facilities, Legal, Procurement, Corporate Assurance and Treasury.

- The Global Group are principally focused on providing technical expertise and products to lottery operators within the UK and around the world. The Global Group income is derived from license fees for these productions and professional service fees to cover project management, architecture, implementation, and testing costs for individual projects. The Global Group won the ten year contract as Private Manager of the Illinois State Lottery in October 2017.

The Group expects to pursue these principal activities for the foreseeable future. The Group's performance is discussed in the Strategic Report set out on pages 3 to 6.

Shareholdings and dividends

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

	Number of 'A' shares £0.001	Number of 'B' shares £1	Number of 'C' shares £0.001
At 31 March 2017	**990**	**10**	**12**
At 31 March 2018	**1,063**	**10**	**12**

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

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

No final dividend has been proposed (2017: £nil).

Directors' Report continued

Directors

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

Chairman
Jo Taylor

Directors
John Dillon
Ilya Kachko

Company Secretary
John Dillon

Insurance for directors and officers

As permitted by the Articles of Association, the directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The Group also purchased and maintained throughout the financial year directors' and officers' liability insurance in respect of itself and its directors.

Going concern

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

The wider economic climate increases the credit and financial liquidity risk of the Group. However, management has assessed the controls in place to minimise the Group's exposure to this increased level of risk (see notes 14 and 15).

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

Research

To secure the long-term success of The National Lottery and to ensure continued sales growth alongside increasing returns to the Good Causes, the Group has continued to spend resources on research during the year. The Group's spend totalled £5.2m in 2018 (2017: £2.8m), primarily in the area of brand and market research.

Employees

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

The Group's Employee Forum extends across all employees in the UK group of companies, and it continues to be consulted on all significant policy proposals and initiatives affecting staff and in turn gathers group-wide reactions to such proposals.

Directors' Report continued

The Group believes that delivering consumer and player satisfaction is key to its success and strives to reward the contribution made by motivated and high performing staff. Reward mechanisms including performance related pay and an annual bonus scheme continue to support this.

Employees pay contributions into the Group's Personal Pension Plan, a defined contribution scheme. In line with new UK legislation the Group now auto-enrols employees into the pension scheme. The first payroll deductions for automatically enrolled employees were made in January 2014.

The Group has an extensive and well-established structure for communicating with employees through a variety of channels including internal publications, company-wide email, web casts, cascades and the Group's intranet site. This is also the medium through which the Group communicates economic and financial factors which impact the Group's performance.

Financial risk management

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

Related party transactions

Details of related party transactions are provided in note 29 to the financial statements.

Suppliers

The Group's policy is to pay suppliers 30 days after the end of the month in which their invoice is received or within such other credit period as agreed between the parties, providing the obligations of those suppliers are met. These terms are stated on all purchase orders issued by the Group.

Independent auditors

The independent auditors, PricewaterhouseCoopers LLP, have expressed their willingness to continue in office.

Directors' Report continued

Statement of Directors' Responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

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

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

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

Statement of disclosure of information to auditors'

Each of the directors in office at the date on which the financial statements were approved, whose names and functions are listed on page 8, confirm that, to the best of their knowledge:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.
- The Strategic Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

On behalf of the Board
Jo Taylor
Director

10 July 2018

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

Report on the audit of the financial statements

Opinion

In our opinion, Premier Lotteries UK Limited's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 March 2018 and of the Group's profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Group and Company Annual Report and Financial Statements (the "Annual Report"), which comprise: the Balance Sheet (Group and Company) as at 31 March 2018; the Group Statement of Comprehensive Income, the Group and Company Statement of Changes in Equity and the Statement of Cash Flows (Group and Company) for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's and company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 March 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 10, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Jonathan Lambert (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

10 July 2018

Premier Lotteries UK Limited

Group Statement of Comprehensive Income

for the year ended 31 March

	Notes	2018 £m	2017 £m
Net income	3	**697.5**	667.9
Retailers' and other commission		**(293.9)**	(299.5)
Gaming systems and data communication costs		**(121.1)**	(114.0)
Gross profit		**282.5**	254.4
Administrative expenses		**(236.3)**	(202.1)
Other operating income		**4.5**	6.2
Operating profit	4	**50.7**	58.5
Finance income	6	**0.3**	0.1
Finance expense	6	**(7.2)**	(8.6)
Profit before income tax		**43.8**	50.0
Income tax	7	**(9.8)**	(9.8)
Profit for the financial year attributable to shareholders		**34.0**	40.2
Other comprehensive income/(expense)			
Foreign exchange gains		**-**	0.3
Fair value gains/ (losses) on cash flow hedges		**0.7**	(0.5)
Tax relating to components of other comprehensive income/(expense)		**(0.1)**	0.1
Other comprehensive income/(expense) for the year		**0.6**	(0.1)
Total comprehensive income for the year		**34.6**	40.1

The results detailed above are all derived from continuing operations.

The notes on pages 17 to 46 are an integral part of these consolidated financial statements.

Premier Lotteries UK Limited

Balance Sheet (Group and Company)

as at 31 March

	Notes	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
ASSETS					
Non-current assets					
Investment in subsidiaries	21	-	-	**290.2**	275.0
Intangible assets	9	**209.9**	221.1	-	-
Property, plant and equipment	10	**67.2**	80.7	-	-
Trade and other receivables	12a	**10.6**	14.8	**31.4**	-
		287.7	316.6	**321.6**	275.0
Current assets					
Inventories	11	**1.0**	0.9	-	-
Trade and other receivables	12b	**458.2**	340.5	**28.3**	26.9
Current income tax asset		-	-	-	0.6
Cash and cash equivalents	13	**68.0**	29.2	-	-
		527.2	370.6	**28.3**	27.5
Total assets		**814.9**	687.2	**349.9**	302.5
LIABILITIES					
Current liabilities					
Financial liabilities - borrowings	17a	**52.9**	55.1	**44.4**	44.3
Trade and other payables	18a	**587.1**	451.4	**32.6**	0.9
Current income tax liability		**6.2**	8.0	-	-
Provisions for liabilities and other charges	20	**5.9**	2.6	-	-
		652.1	517.1	**77.0**	45.2
Non-current liabilities					
Financial liabilities - borrowings	17b	**142.1**	194.5	**155.7**	200.1
Trade and other payables	18b	**4.1**	3.1	-	-
Deferred income tax liabilities	19	**15.9**	20.5	-	-
Derivative financial instruments	16	**0.1**	0.8	**0.1**	0.7
Provisions for liabilities and other charges	20	**20.4**	20.8	-	-
		182.6	239.7	**155.8**	200.8
Total liabilities		**834.7**	756.8	**232.8**	246.0
EQUITY					
Capital and reserves					
Share capital	22	-	-	-	-
Share premium	23	**15.2**	-	**15.2**	-
Other reserves	24	-	(0.6)	-	(0.6)
(Accumulated losses)/Retained earnings	24	**(35.0)**	(69.0)	**101.9**	57.1
Total equity		**(19.8)**	(69.6)	**117.1**	56.5
Total equity and liabilities		**814.9**	687.2	**349.9**	302.5

As permitted by section 408 of the Companies Act 2006, the income statement of the Company has not been presented in the financial statements. The profit for the financial year was £44.8m (2017: profit £47.6m). The notes on pages 17 to 46 are an integral part of these consolidated financial statements. The financial statements including the accompanying notes were approved by the Board of Directors on 10 July 2018 and were signed on its behalf by:

Jo Taylor
Director
Premier Lotteries UK Limited
Company Number 07193686

Premier Lotteries UK Limited

Group and Company Statement of Changes in Equity

For the year ended 31 March

Group	Notes	Share premium £m	Share capital £m	Foreign exchange reserve £m	Other reserves £m	Retained earnings £m	Total equity £m
Balance as at 1 April 2016		**-**	**-**	**(0.3)**	**(0.2)**	**(87.3)**	**(87.8)**
Comprehensive income/ (expense)							
Profit for the financial year		-	-	-	-	40.2	**40.2**
Foreign exchange gains/(losses) (net of income tax)		-	-	0.3	-	-	**0.3**
Fair value losses on cash flow hedges (net of income tax)		-	-	-	(0.5)	-	**(0.5)**
Tax relating to components of other comprehensive income/(expense)		-	-	-	0.1	-	**0.1**
Total comprehensive income		-	-	0.3	(0.4)	40.2	**40.1**
Dividends paid	8	-	-	-	-	(21.9)	**(21.9)**
Balance as at 31 March 2017		**-**	**-**	**-**	**(0.6)**	**(69.0)**	**(69.6)**
Comprehensive income/ (expense)							
Profit for the financial year		-	-	-	-	34.0	**34.0**
Share premium	23	15.2	-	-	-	-	**15.2**
Fair value gain on cash flow hedges (net of income tax)		-	-	-	0.7	-	**0.7**
Tax relating to components of other comprehensive income/(expense)		-	-	-	(0.1)	-	**(0.1)**
Total comprehensive income		15.2	-	-	0.6	34.0	**49.8**
Dividends paid	8	-	-	-	-	-	**-**
Balance as at 31 March 2018		**15.2**	**-**	**-**	**-**	**(35.0)**	**(19.8)**

Company	Notes	Share premium £m	Other reserves £m	Retained earnings £m	Total equity £m
Balance as at 1 April 2016		**-**	**(0.1)**	**31.5**	**31.4**
Profit for the financial year		-	-	**47.6**	47.6
- Fair value losses		-	(0.5)	-	(0.5)
- Dividends paid		-	-	(21.9)	(21.9)
At 31 March 2017		-	**(0.6)**	**57.1**	**56.5**
Profit for the financial year			-	**44.8**	44.8
- Fair value gains			0.6		0.6
Share premium	23	15.2	-	-	15.2
Balance as at 31 March 2018		**15.2**	**-**	**101.9**	**117.1**

At 31 March 2018, the Company had share capital totalling £1,085 (2017: £1,012), as disclosed in note 22 to these consolidated financial statements.

The notes on pages 17 to 46 are an integral part of these consolidated financial statements.

Premier Lotteries UK Limited

Statement of Cash Flows (Group and Company)

for the year ended 31 March

	Notes	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Cash flows from operating activities					
Cash generated from operations	25	**130.2**	102.5	**54.0**	67.2
Bank interest received		**0.3**	0.1	-	-
Interest paid		**(7.2)**	(8.6)	**(9.0)**	(9.4)
Income tax paid	7	**(13.0)**	(16.0)	-	-
Group relief receipts		-	(0.8)	-	1.3
Net cash from operating activities		**110.3**	77.2	**45.0**	59.1
Cash flows from investing activities					
Purchase of property, plant and equipment		**(5.2)**	(30.0)	-	-
Expenditure on intangible assets		**(25.9)**	(3.0)	-	-
Net cash used in investing activities		**(31.1)**	(33.0)	-	-
Cash flows from financing activities					
Dividends paid to shareholders		-	(21.9)	-	(21.9)
Proceeds from issue of shares		**15.2**	-	-	-
Capital repayments on term loan		**(45.0)**	(45.0)	**(45.0)**	(45.0)
Drawdown from intercompany		-	-	-	7.0
Finance lease principal payments		**(10.6)**	(8.3)	-	(0.1)
Net cash used in financing activities		**(40.4)**	(75.2)	**(45.0)**	(60.0)
Net increase/(decrease) in cash, cash equivalents and bank overdrafts		**38.8**	(31.0)	-	(0.9)
Cash, cash equivalents and bank overdrafts at the beginning of the year		**29.2**	60.2	-	0.9
Cash, cash equivalents and bank overdrafts at the end of the year	13	**68.0**	29.2	-	-

The notes on pages 17 to 46 are an integral part of these consolidated financial statements.

Notes to the Financial Statements

1. General Information

Premier Lotteries UK Limited has a sole objective to provide financing to Group companies, which include the following subsidiaries: Camelot, CGSL CBSL, CGLSL, CGSNA and CI.

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

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

The Company's ultimate parent undertaking and controlling party is Teachers'. The financial statements of Teachers' are publicly available at www.otpp.com. The Company maintains close links with Teachers' who have representatives on the Board and also have direct lines of access to the Chairman, the Executive Director, the Independent Non-executive Directors and the Company Secretary.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements for the year ended 31 March 2018 are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

a) Basis of preparation

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

The financial statements have been prepared under the historical cost convention, as modified by financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss. After making enquiries, the directors have a reasonable expectation that the Group and Company has adequate resources to continue in operational existence for the foreseeable future. The Group and Company therefore continue to adopt the going concern basis in preparing its financial statements.

The Group's accounting policies were selected by management considering all applicable IFRS by 31 March 2018.

i) Adoption of new and revised standards in 2017/18:

No new accounting standards, or amendments to accounting standards that are effective for the year ended 31 March 2018, have had a material impact on the company.

ii) New standards, amendments and interpretations not yet adopted:

Standards and interpretations which are not yet effective and have not been early adopted by the company are listed below.

- IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for the annual period beginning on 1 April 2018. The directors anticipate that, if IFRS 15 was implemented on 1 January 2018, the impact on the Global Group as at March 2018 would be an historical increase in revenue of £4.6m, a £7m increase in interest expense and a £2.4m increase in deferred revenue. This would result in a tax credit of £0.5m and an increase in the tax asset of £0.5m. This is not expected to have a material impact on the Group.

- IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in IAS 39, 'Financial Instruments', which relates to the classification and measurement of financial instruments. The standard is effective for the annual period beginning on 1 April 2018. The full impact of IFRS 9 is currently being reviewed by management.

- IFRS 16, 'Leases' addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on balance sheet for lessees. The standard replaces IAS 17 'Leases', and related interpretations. The standard is effective for the annual period beginning on 1 April 2019. The full impact of IFRS 16 is currently being reviewed by management.

b) Critical accounting assumptions, estimates and judgements

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting assumptions, and it also requires management to exercise its judgement and to make estimates in the process of applying the Group's accounting policies. The areas requiring a higher degree of judgement or areas where assumptions and estimates are significant to the financial statements are discussed below and in the accruals and provisions section in note 18 and 20.

Intangible assets

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

Recognition and measurement of intangibles

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

Impairment of goodwill and other intangibles

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

The Group uses forecast cashflow information and estimates of future earnings to assess whether intangible assets are impaired and to assess useful economic lives. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. All impairment charges are recognised in the Statement of Comprehensive Income.

Long term incentive plans

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

c) Basis of consolidation

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

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

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

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

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

Investments in subsidiary companies

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

The Group also owns the entire share capital of five dormant subsidiaries which have share capital equal to net assets of £6 in total. These investments are not considered material for the purpose of giving a true and fair view of these financial statements and therefore have not been consolidated (see note 30).

d) Segmental reporting

The Group does not publicly trade its equity or debt securities and is not in the process of issuing equity or debt securities in public securities markets. The Group is therefore outside the scope of IFRS 8 'Operating Segments' and as such has not presented operating segment disclosures.

e) Net income

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

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

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

The Group also earns income from consultancy services provided by the Global Group which is presented in other net income.

f) Retailers' and other commission

Amounts charged to the Statement of Comprehensive Income represent commissions arising due to retailers based on sales and in-store prize payments to date; fees paid for the processing of debit card payments which arise when players load or unload money to and from their interactive wallet to enable them to participate in The UK National Lottery using the interactive channel; and other sales-related commissions.

g) Goodwill

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

Goodwill is tested for impairment annually, or at any other time that there is an indication of impairment, and is carried at cost less accumulated impairment losses. Impairment losses would be charged to the Statement of Comprehensive Income. Goodwill is allocated to cash generating units for the purpose of impairment testing, and the allocation is made to those cash generating units or groups of cash generating units that are expected to benefit from the business combination in which the goodwill arose.

h) Other intangible assets

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

Intangible assets acquired in a business combination

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

Internally generated intangibles

Costs relating to the development of software and The National Lottery website, including design and content development, are capitalised as intangible assets only when the future economic benefits expected to arise are deemed probable and the costs can be reliably measured. Development costs not meeting these criteria are expensed in the Statement of Comprehensive Income as incurred. Capitalised development costs are amortised on a straight line basis over the period gaining economic benefit from the expenditure once the related product is available for use. Research costs are charged to the Statement of Comprehensive Income as incurred. Interactive development costs that relate to channels other than the website are also capitalised on the same basis. Assets under construction are not amortised until they are brought into use.

Separately acquired intangibles

Intangible assets purchased separately, such as software licences that do not form an integral part of related hardware, are capitalised as intangible assets at cost and amortised over their useful economic life. Costs associated with maintaining software are charged to the Statement of Comprehensive Income as incurred.
Amortisation is provided on all intangible assets at such rates as to write off the cost of these assets in equal instalments, either over their expected useful lives or the remaining Section 5 Licence Period throughout which benefit is anticipated to be derived from the asset. The third operating Licence extension runs to 2023.

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

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

Impairment of intangible assets

The Group uses forecast cash flow information and estimates of future earnings to assess whether intangible assets are impaired with reference to their useful economic lives. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. All impairment charges are recognised in the Statement of Comprehensive Income.

Notes to the Financial Statements continued

i) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation. The cost of property, plant and equipment includes the estimated cost of removing and disposing of the terminal assets held at retailer sites. Assets under construction are not depreciated until they are brought into use.

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

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

Short leasehold improvements

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

Plant, equipment and motor vehicles

- Computer hardware (excluding central gaming)	The shorter of four years, or in the case of leased assets the lease period, and the period to the end of the third operating Licence extension
- Central gaming systems, Interactive hardware and Enterprise Resource Planning hardware	The period to the end of the third operating Licence extension or planned replacement date if earlier, or the lease term for leased assets and associated costs
- Fixtures and fittings	5 years
- Media screens	3 years
- Lottery terminals	The period to the end of the third operating Licence extension or the lease term planned replacement date if earlier
- Permanent point-of-sale equipment (PPOS)	The shorter of 2 – 5 years and the period to the end of the third operating Licence extension
- Other plant and equipment	Between 2 – 5 years, or planned replacement date
- Motor vehicles	The lease term

The residual values and useful economic lives of property, plant and equipment are reviewed annually. If an asset's carrying amount is greater than its estimated recoverable amount, the carrying amount is immediately written-down.

j) Finance leases

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

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

k) Operating leases

Operating lease rentals are charged to the Statement of Comprehensive Income on a straight line basis over the lease term. Operating lease incentives are recognised as a reduction in the rental expense over the lease term.

l) Inventories

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

m) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. A provision is raised if future cash flows are not estimated to match the asset's carrying value. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced through the use of a doubtful debtor account, and the amount of the loss is recognised in the Statement of Comprehensive Income within 'administrative expenses'. When a trade receivable subsequently becomes uncollectible, it is written off against the doubtful debt provision, in the period in which the bad debt is identified. Subsequent recoveries of amounts previously written off are credited against 'administrative expenses' in the Statement of Comprehensive Income. If collection is expected within one year or less they are classified as current assets, or non-current assets if expected after more than one year.

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

n) Trade and other payables

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

o) Financial instruments

The following policies for financial instruments have been applied in the preparation of the Group's financial statements:

Cash and cash equivalents

For the purpose of preparation of the Statement of Cash Flows, cash and cash equivalents includes cash at bank and in hand, short-term deposits with an original maturity period of three months or less and certain amounts classified as borrowings, as detailed below.

Bank overdrafts that are an integral part of the Group's cash management are included in cash and cash equivalents where they have a legal right of set-off against positive cash balances. If the cash position after the set-off of the overdrafts amounts to a net overdraft, these amounts are classified as borrowings, but are still classified as cash and cash equivalents for the purposes of the Statement of Cash Flows.

Borrowings

Borrowings comprise amounts drawn down against the Group's bank facilities, amounts (other than trade payables) due to parent undertakings and any bank overdrafts as defined above. They are recognised initially at fair value, net of transactions costs incurred. Transaction costs are charged to operating profit in the period incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Statement of Comprehensive Income over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Derivative financial instruments and hedging activities

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

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

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

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

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

Cash flow hedges

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

p) Provisions

Provisions are recognised where the Group has legal or constructive present obligations as a result of past events, that will probably require an outflow of resources to settle, and this outflow can be reliably measured, as detailed below. Provisions are discounted when the effect of the time value of money is material.

i-lottery platform

There is a provision in the current year that relates to costs expected to be incurred to complete contractual obligations in relation to additional features on the i-lottery platform delivered to a customer in the year. The provision will be released over the next financial year. This provision is included in Terminal and data communications in note 20.

Decommissioning

Provisions are made for the cost of decommissioning terminals and communications equipment held at retailer sites, and the disposal of these assets. A further provision comprises amounts in respect of lost or destroyed terminals.

Dilapidations

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

Restructuring

Provisions for restructuring costs are recognised when the Group has a present legal or constructive obligation as a result of a past event, where it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be readily estimated. Provisions are not recognised for future operating losses.

Long term incentive plans

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

q) Pensions

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

r) Current and deferred income tax

Current income tax is recognised based on the amounts expected to be paid or recovered under the tax rates and laws that have been enacted or substantively enacted at the reporting date.

Deferred income tax is provided in full, using the liability method, on temporary differences that arise between the carrying amounts of assets and liabilities for financial reporting purposes and their corresponding tax base. A temporary difference is a taxable temporary difference if it will give rise to taxable amounts in the future when the asset or liability is settled. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the asset can be offset. Deferred income tax assets and liabilities recognised are not discounted. Deferred income tax liabilities and assets are classified as non-current irrespective of the expected timing of the reversal of the underlying taxable temporary difference. Current income tax assets and liabilities are shown separately on the face of the Balance Sheet.

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

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

s) Value added tax

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

t) Share capital and dividend recognition

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

u) Foreign currency translation

Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in GBP Sterling (£m), which is the Company's functional and the Group's presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the trading are recognised in the Group Statement of Comprehensive Income. All other foreign exchange gains and losses are presented in the Group Statement of Comprehensive Income within administrative expenses.

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

3. Net income (Group)

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

	2018	2017
	£m	£m
Gross ticket sales	**6,951.7**	6,925.3
Lottery duty	**(834.2)**	(831.0)
Prizes	**(3,928.4)**	(3,943.2)
National Lottery Distribution Fund	**(1,532.8)**	(1,496.1)
Net income arising from Lottery sales	**656.3**	655.0
Other revenue	**41.2**	12.9
	697.5	667.9

4. Operating profit (Group)

	2018	2017
	£m	£m
Other operating income [1]	**4.5**	6.2
Marketing expenses	**(76.3)**	(84.3)
Research	**(5.2)**	(2.8)
Amortisation of intangible assets (note 9) [2]	**(35.3)**	(38.5)
Depreciation on tangible assets (note 10) [2]	**(18.7)**	(12.5)
Operating lease rentals - property	**(4.1)**	(4.0)
Auditors' remuneration - audit Group and Company financial statements	**(0.8)**	(0.8)
Auditors' remuneration – non audit	**(0.1)**	-

[1] Other operating income comprises an operating fee receivable from retailers who lease Scratchcard-only terminals in the estate. The operating fee income is recognised on a straight-line basis over the term of the operating lease. Income is only recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Marketing is now shown net of amounts received from NLDF during the year in respect of marketing. In the previous financial year, marketing expenses were shown gross, with the income received from NLDF disclosed as Other operating income.

[2] Amortisation and depreciation included within gaming systems and data communication costs on the face of the Statement of Comprehensive Income are shown separately in this note.

5. Employee expenses and numbers (Group)

The following information relates to the Group.

Employee expenses	2018 £m	2017 £m
Wages and salaries	**65.3**	39.1
Social security costs	**6.6**	5.5
Other pension costs	**2.7**	2.6
	74.6	47.2

Monthly average number of Group employees	2018 Number	2017 Number
Retailer and consumer services	**137**	108
Sales and marketing	**438**	336
Information technology	**244**	272
Finance, administration and other	**144**	48
	963	764

Key management personnel compensation	2018 £m	2017 £m
Salaries and other employee benefits	**5.6**	3.7
Other long term benefits	**1.1**	0.2
Other pension costs	**0.5**	0.4
	7.2	4.3

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

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

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

6. Finance income and expense (Group)

	2018 £m	2017 £m
Interest receivable from bank deposits	**0.3**	0.1
Finance income	**0.3**	0.1
Interest payable on Term and other loans	**(5.4)**	(6.6)
Interest payable on finance leases	**(0.8)**	(1.1)
Amortisation of loan fees	**(0.6)**	(0.7)
Other interest expense	**(0.4)**	(0.2)
Finance expense	**(7.2)**	(8.6)
Net finance expense	**(6.9)**	(8.5)

7. Income tax (Group)

a) Corporation tax

	2018 £m	2017 £m
Current income tax charge	**14.4**	16.1
Deferred income tax credit	**(4.6)**	(6.3)
Income tax charge	**9.8**	9.8

The income tax charge is based on a corporation tax rate of 19% for the year ended 31 March 2018. All taxable temporary differences have been recognised and are reflected in the deferred taxation balance.

b) Reconciliation of tax charge

	2018 £m	2017 £m
Profit before income tax	**43.8**	50.0
Charge on profit on ordinary activities at the standard rate of 19% (2017: 20%)	**8.3**	10.0
Factors affecting charge:		
Expenses not deductible for tax purposes	**0.8**	0.9
Prior year adjustments	**0.2**	(0.4)
Effect of changes in rate of deferred tax	**0.5**	(0.7)
Income tax charge	**9.8**	9.8

The total tax paid by the Group amounted to £13.0m (2017: £16.0m)

8. Dividends (Group and Company)

The Company paid a dividend of £nil (2017: £21.9m) to its parent. Dividends per share in the year were £nil (2017: £21,640).

9. Intangible assets (Group)

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

9. Intangible assets (Group) continued

	Internally generated assets £m	Separately acquired assets £m	Acquired intangible assets £m	Goodwill £m	**Total £m**
Cost					
At 1 April 2017	25.7	66.0	308.9	37.0	**437.6**
Additions	12.1	13.8	-	-	**25.9**
Disposal	-	(1.8)	-	-	**(1.8)**
At 31 March 2018	**37.8**	**78.0**	**308.9**	**37.0**	**461.7**
Accumulated amortisation and impairment					
At 1 April 2017	8.9	31.1	175.8	0.7	**216.5**
Charge for the year	5.8	6.7	22.8	-	**35.3**
At 31 March 2018	**14.7**	**37.8**	**198.6**	**0.7**	**251.8**
Net book value					
At 31 March 2018	**23.1**	**40.2**	**110.3**	**36.3**	**209.9**

Intangible assets include £11.6m (2017: £8.0m) of assets which are under construction.

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

Amortisation is charged to administrative expenses.

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

Impairment tests for goodwill

Goodwill is tested for impairment by allocating its carrying amount to cash generating units (CGUs). If the recoverable amount of a CGU exceeds its carrying amount, the CGU and any goodwill allocated to it would be regarded as not impaired. The £36.3m of goodwill as at 31 March 2018 is allocated between Camelot (£35.0m) and CGSL (£1.3m).

Notes to the Financial Statements continued

9. Intangible assets (Group) continued

Basis on which recoverable amount has been determined

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

- For the Camelot CGU, this is based on 5 year forecast, approved by the Directors of Camelot. This forecast runs to the end of the current Licence. This calculation therefore does not include the potential that Camelot will win the 4th licence.
- For the CGSL CGU, the calculation is based on the 5 year strategic plan approved the Directors of CGSL. The terminal value of cash flow has been calculated using an exit multiple of 5.

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

Key assumptions used in value in use calculations

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

The post-tax discount rate applied to cash flow projections for the assessment is 5.60% (2017: 4.50%).

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

10. Property, plant and equipment (Group)

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

10. Property, plant and equipment (Group) continued

	Assets under construction £m	Short leasehold improvements £m	Plant and equipment and motor vehicles £m	**Total £m**
Cost				
At 1 April 2017	2.1	2.5	156.0	**160.6**
Additions	5.0	-	0.2	**5.2**
Transfers	(4.2)	-	4.2	**-**
Disposals	-	-	-	**-**
At 31 March 2018	2.9	2.5	160.4	**165.8**
Accumulated depreciation and impairment				
At 1 April 2017	0.1	2.0	77.8	**79.9**
Charge for the year	-	0.3	18.4	**18.7**
Disposals	-	-	-	**-**
At 31 March 2018	0.1	2.3	96.2	**98.6**
Net book value				
At 31 March 2018	**2.8**	**0.2**	**64.2**	**67.2**

The net book value of plant and equipment and motor vehicles held under finance leases is £16.1m (2017: £24.5m). Depreciation charged in the year in respect of these assets was £6.7m (2017: £4.6m).

All tangible fixed assets are initially recognised as assets under construction and are transferred to plant and equipment and motor vehicles once the project is complete.

Depreciation is charged to administrative expenses.

11. Inventories (Group)

	Group 2018 £m	Group 2017 £m
Scratchcard tickets	**0.5**	0.3
Playslips, terminal rolls and other consumables	**0.5**	0.6
At 31 March	**1.0**	0.9

Inventory consumed during the year amounted to £24.1m (2017: £23.7m). No provision has been raised against the inventory balance in the current year (2017: nil).

12. Trade and other receivables (Group and Company)

a) Non-current assets

	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Euromillions deposit	**9.4**	7.5	**-**	-
Other receivables and prepayments	**1.2**	7.3	**-**	-
Amounts receivable from related parties	**-**	-	**31.4**	-
At 31 March	**10.6**	14.8	**31.4**	-

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

At 31 March 2018, the Group had on deposit £9.4m (2017: £7.5m) of funds in a restricted cash trust accounts as a reserve for the protection of prize winners. Although the Group cannot currently withdraw these amounts until the end of the third operating Licence extension period, the interest on these accounts accrues to the Group.

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

During the year a receivable balance in CBSL from the Global Group was transferred to PLUK, therefore removing CBSL as an intermediary.

b) Current assets

	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Trust receivables	**379.1**	280.5	**-**	-
Trade receivables	**55.1**	42.9	**-**	-
Amounts receivable from related parties	**0.2**	-	**28.3**	26.9
Accrued income and prepayments	**23.8**	17.0	**-**	-
At 31 March	**458.2**	340.4	**28.3**	26.9

Trust receivables comprise the amounts due from the Trusts to the Group for unpaid prizes of £312.1m (2017: £215.4m), together with amounts held in respect of future draws both in the form of advance sales and interactive wallet balances of £67.0m (2017: £65.1m).

Trade receivables of the Group primarily represent amounts due from retailers. During the year there has been a reclassification of retailer bonds of £6.2m (2017: £6.3m) from trade receivables to other payables (note 18a). In prior years the retailer bonds have been offset by amounts due from retailers within trade receivables however, the classification has been reassessed and going forward the retailer bonds will be classified separately in other payables.

As of 31 March 2018, the Group's trade receivables from retailers of £51.3m (2017: £31.1m) were not yet due for payment in accordance with the normal payment cycle. As of 31 March 2018 of the Group's retail trade receivables, £0.2m (2017: £0.3m) were impaired and provided for. The recoverability of trade receivables held with multiple retailers is impaired when debt becomes more than 90 days past due. Balances due from independent retailers are impaired 6 weeks after the retailer's agreement is terminated. Outstanding balances on our active retailer estate are impaired after 30 days.

Other trade receivables that are past due are considered impaired when it is deemed uneconomical to pursue recoverability of the debt. At 31 March 2018, no other trade receivables were considered impaired or provided for.

Notes to the Financial Statements continued

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

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

	Group 2018 £m	Group 2017 £m	**Company 2018 £m**	Company 2017 £m
7 days to 3 months	**2.7**	1.2	-	-
3 to 6 months	-	-	-	-
More than 6 months	-	-	-	-
At 31 March	**2.7**	1.2	-	-

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

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

	Group 2018 £m	Group 2017 £m	**Company 2018 £m**	Company 2017 £m
At 1 April	**0.3**	0.3	-	-
Provision for impairment of trade receivables	**0.2**	0.2	-	-
Utilised	**(0.1)**	(0.1)	-	-
Unused amounts reversed	**(0.2)**	(0.1)	-	-
At 31 March	**0.2**	0.3	-	-

All movements in the provision for impaired receivables have been included in administrative expenses in the Statement of Comprehensive Income. The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. With the exception of £6.2m (2017: £6.3m) in retailer bonds, the Group and Company do not hold any collateral as security.

13. Cash and cash equivalents (Group and Company)

Cash at bank and in hand comprise Camelot bank accounts and short-term deposits. Fixed and floating charges have been given in respect of certain Camelot assets to the trustee and to Camelot's syndicated lenders. Camelot's cash balances can be analysed as follows:

	Group 2018 £m	Group 2017 £m	**Company 2018 £m**	Company 2017 £m
Cash at bank and in hand	**27.8**	13.3	-	-
Short-term deposits	**40.2**	15.9	-	-
At 31 March	**68.0**	29.2	-	-

Amounts held in short-term bank deposits comprise amounts held in either deposit accounts or Money Market Funds with interest earned rates at 31 March 2018 of 0.15% to 0.70% (2017: 0.01% to 0.55%). Both types of deposit are redeemable on demand.

Notes to the Financial Statements continued

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

On 8 July 2010 the Company entered into a £55.0m committed Revolving Credit Facility which runs until 6 August 2019 with the option (at no cost) to extend maturity for a further three years. The amount drawn under this facility at 31 March 2018 was nil (2017: nil).

The Group has a further £5.0m committed revolving credit facility which expires on 23 September 2020 available for utilisation by Group companies except Camelot and CGSL (2017: £5.0m). The amount drawn under this facility at 31 March 2018 was nil (2017: nil).

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

External credit ratings are obtained for each trade receivable counterparty at the point the Group starts to trade with that retailer to confirm the creditworthiness of the retailer. See note 15 for details on the Group's credit control policy for trade receivables.

External credit ratings are obtained for banks where the Group holds cash and short-term bank deposits. At 31 March 2018, the credit ratings for the banks where financial assets totalling £30.6m (2017: £15.0m) are held in deposit accounts with banks which have Moody's short-term credit ratings of P1 and £9.5m (2017: £0.9m) was held in deposit accounts which have a Moody's short-term credit rating of P2. Money Market Funds used during this and the preceding year each have Moody's credit ratings of AAA. Cash at bank and the trust accounts are held with Royal Bank of Scotland plc., which has a Moody's credit rating of P2 and A3 respectively.

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

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

15. Financial risk management (Group and Company)

Exposure to credit, interest rate, currency, liquidity and capital risks arise in the normal course of the Group's business. The likely impact of these risks, which are further mitigated by the Company's use of hedging instruments on borrowings, is deemed to be immaterial and therefore no sensitivity analysis has been presented in these financial statements.

a) Credit risk

Credit insurance is held for the vast majority of the Group's multiple store retailers and management has a credit policy in place and the exposure to credit risk is monitored on an on-going basis. Credit evaluations are performed on all customers at the point at which the Group starts to trade with that retailer. If the uninsured credit risk exposure is significant, Camelot will request a bond as collateral to protect against any future payment default. This is held for a minimum of two years, during which period payment patterns are monitored. Amounts invoiced to retailers are collected within three working days. If a retailer fails to make payment on the due date, the retailer's terminal is suspended until the debt is cleared. Retailer agreements set out the Group's credit policy for late payments.

Camelot has reviewed its established credit policy and debt collection processes to ensure they are appropriate and address the additional exposures to increased credit risk the current economic climate brings. Management is confident that the current arrangements minimise the Group's exposure in this area, however this continues to be closely monitored.

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

The Group investment policy restricts investment to short-term money market deposits or Money Market Fund deposits and only with counterparties that have strong credit quality and a strong capacity for timely payment of short-term deposit obligations.

The carrying value of financial assets approximates to fair value.

Notes to the Financial Statements continued

b) Interest rate risk

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

The Group's Term Loan borrowings of £175m are also at floating rates of interest although some cash flow hedging has been undertaken using interest rate swaps under which the Group receives LIBOR and pays 0.753% on the hedged amount, thereby significantly reducing exposure to interest rate risk.

Investments are predominately in fixed-rate deposit accounts which are redeemable on demand. The average rate of return on Money Market Funds used by the Group during the year was 0.20% (2017: 0.34%).

c) Foreign exchange risk

The Group is exposed to foreign exchange risk on purchases that are denominated in a currency other than GBP Sterling (£). The currencies giving rise to this risk are primarily U.S. Dollars ($) and Euros (€). During the year, the Group did not participate in any foreign exchange hedging contracts due to the minimal volume and value of foreign transactions. Transactions denominated in foreign currencies are accounted for in line with our accounting policy detailed in note 2(u).

Included within Administrative expenses in the Group Statement of Comprehensive Income are net foreign exchange gains of £0.4m (2017: £0.5m).

d) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due. This risk is managed to ensure that sufficient funding and liquidity is available to meet the expected needs of the Group together with a prudent level of headroom to allow for cash flow variations.

In addition to its own free cash flow, the Group has access to revolving credit facilities outlined in note 13. These contain covenants including a maximum level of leverage and minimum levels of interest and debt service cover, all of which the Group has met. The undrawn level of these facilities together with the Group's cash balances are the key measures of the Group's liquidity.

The Group's cash is subject to regular daily, weekly and monthly cycles that are factored into long-range cash flow forecasts which are regularly updated and reviewed by management. These forecasts determine adequacy of the Group's liquidity facilities and the timing of drawings and repayments under the above facilities.

Liquidity is centralised through cash pooling arrangements and any surplus cash is deposited with well rated banks or Money Market Funds, typically for a term of between one day and three months depending on projected cash flow requirements.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed are contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Mature in less than 1 year £m	Mature between 1 and 2 years £m	Mature between 2 and 5 years £m	Mature in greater than 5 years £m
At 31 March 2017				
Finance lease obligations	10.8	18.1	3.1	-
Term loan	45.0	45.0	130.0	-
Trade and other payables	451.4	5.9	6.8	1.7
At 31 March 2018				
Finance lease obligations	**8.5**	**11.1**	**2.0**	**-**
Term loan	**45.0**	**60.0**	**70.0**	**-**
Trade and other payables	**587.1**	**4.1**	**-**	**-**

15. Financial risk management (Group and Company) continued

e) Capital risk

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

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

f) Fair value estimation

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

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

The following table presents the Group's assets and liabilities that are measured at fair value at 31 March 2017 and 2018.

Liability	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 31 March 2017				
Derivative asset used for hedging	-	(0.8)	-	**(0.8)**
Total Liability	**-**	**(0.8)**	**-**	**(0.8)**
Liability				
At 31 March 2018				
Derivative liability used for hedging	-	(0.1)	-	**(0.1)**
Total liabilities	**-**	**(0.1)**	**-**	**(0.1)**

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

16. Derivative financial instruments (Group)

Interest rate swaps: Cash flow hedges	2018 £m	2017 £m
Liability	(0.1)	(0.8)
At 31 March	**(0.1)**	**(0.8)**

During 2018 the interest rate swaps executed in 2012 expired (2017: £44.0m) fixing LIBOR at 0.7%. The Group held interest rate swaps executed in 2017 with a notional principal of £100.0m (2017: £90.0) fixing LIBOR at 0.753%.

The hedging contracts are valued independently based on interest rate yield curves. As at 31 March 2018 the value of the swap contracts was a £0.1m net liability (2017: £0.7m net liability). Fluctuations in the value of the hedging contract are recognised through Other Reserves in equity (refer to note 24).

17. Financial liabilities – borrowings (Group and Company)

a) Current liabilities: amounts falling due within one year

	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Finance lease obligations	8.5	10.8	-	-
Term loan	45.0	45.0	45.0	45.0
Fees incurred on arranging Term loans	(0.6)	(0.7)	(0.6)	(0.7)
At 31 March	**52.9**	55.1	**44.4**	44.3

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

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

	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Finance lease obligations	13.1	21.2	-	-
Term loan	130.0	175.0	130.0	175.0
Fees incurred on arranging Term loans	(1.0)	(1.7)	(1.0)	(1.7)
Amounts due to related parties	-	-	26.7	26.9
At 31 March	**142.1**	194.5	**155.7**	200.1

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

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

Finance leases primarily relate to National Lottery terminals and software.

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

c) Interest rate profile of financial liabilities

The interest rate profile of the debt is as follows:

Liabilities 2017	%	Floating rate £m	%	Fixed rate £m
Term loan	LIBOR + Margin%	220.0		-
Finance leases		8.3	Various	23.7
		228.3		23.7
Interest rate swaps '12 -'17	Receive LIBOR	(134.0)	0.760	134.0
Net fixed/floating principal		**94.3**		**157.7**
Total borrowings		**94.3**		**157.7**

Liabilities 2018	%	Floating rate £m	%	Fixed rate £m
Term loan	LIBOR + Margin%	175.0		-
Finance leases		6.2	Various	15.2
		181.2		15.2
Interest rate swaps	Receive LIBOR	(100.0)	0.753	100.0
Net fixed/floating principal		**81.2**		**115.2**
Total borrowings		**81.2**		**115.2**

18. Trade and other payables (Group and Company)

a) Current liabilities

	Group 2018 £m	Group 2017 £m	**Company 2018 £m**	Company 2017 £m
Prize liability	**335.7**	227.0	**-**	-
Advance receipts for future draws	**33.8**	45.4	**-**	-
Amounts payable to the NLDF	**33.4**	29.8	**-**	-
Lottery duty payable	**76.3**	73.2	**-**	-
Trade payables	**9.8**	20.4	**-**	-
Other payables	**33.2**	29.3	**-**	-
Amounts due to related parties	**-**	-	**32.5**	0.7
Accruals and deferred income	**64.9**	26.3	**0.1**	0.2
At 31 March	**587.1**	451.4	**32.6**	0.9

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

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

During the year there has been a reclassification of retailer bonds of £6.2m (2017: £6.3m) from trade receivables (note 12b) to other payables. In prior years the retailer bonds have been offset by amounts due from retailers within trade receivables however, the classification has been reassessed and going forward the retailer bonds will be classified separately in other payables.

The Prize liability represents both unclaimed prizes and amounts planned for future prize payments and at 31 March 2018, the Group had transferred £310.2m (2017: £213.6) into the relevant trust accounts to meet these liabilities. Advance receipts for future draws represent the multi-draw and subscription payments relating to future draws.

b) Non-current liabilities

	Group 2018 £m	Group 2017 £m
Accruals	**4.1**	3.1

19. Deferred taxation (Group)

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

Outstanding offset amounts are as follows:

Deferred tax assets	**Group 2018 £m**	Group 2017 £m
Deferred tax asset to be recovered after more than 12 months	**3.8**	4.0
Deferred tax asset to be recovered within 12 months	-	-
At 31 March	**3.8**	4.0

Deferred tax liabilities	**Group 2018 £m**	Group 2017 £m
Deferred tax liability to be recovered after more than 12 months	**(15.9)**	(20.5)
Deferred tax liability to be recovered within 12 months	**(3.8)**	(4.0)
At 31 March	**(19.7)**	(24.5)
Deferred tax liabilities (net)	**(15.9)**	(20.5)

19. Deferred taxation (Group) continued

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

	Accelerated capital allowances £m	Provisions £m	Cash flow hedges £m	Other temporary differences £m	**Total £m**
At 1 April 2016	(2.6)	3.7	-	(28.1)	(27.0)
Credited in the Statement of Comprehensive Income	0.6	0.4	0.1	4.0	5.1
Change in tax rate	0.1	(0.2)	-	1.5	1.4
At 31 March 2017	**(1.9)**	**3.9**	**0.1**	**(22.6)**	**(20.5)**

	Accelerated capital allowances £m	Provisions £m	Cash flow hedges £m	Other temporary differences £m	**Total £m**
At 1 April 2017	(1.9)	3.9	0.1	(22.6)	(20.5)
Credited in the Statement of Comprehensive Income	1.0	(0.1)	(0.1)	3.8	4.6
Change in tax rate	-	-	-	-	-
At 31 March 2018	**(0.9)**	**3.8**	**-**	**(18.8)**	**(15.9)**

20. Provisions for liabilities and other charges (Group)

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

	Legal £m	Terminal and data communication related £m	Property £m	Restructuring £m	Long term incentive plan £m	**Total £m**
At 1 April 2017	**0.3**	**8.9**	**4.5**	**0.1**	**9.6**	**23.4**
Charged to Statement of Comprehensive Income	0.2	3.5	0.7	0.7	2.6	7.7
Utilised in the year	-	(1.2)	(1.2)	(0.1)	(2.3)	(4.8)
At 31 March 2018	**0.5**	**11.2**	**4.0**	**0.7**	**9.9**	**26.3**

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

	2018 £m	2017 £m
Current	**5.9**	2.6
Non-current	**20.4**	20.8
At 31 March	**26.3**	23.4

Terminal and data communications related provisions include: a provision for the cost of decommissioning existing terminals and communications equipment held at retailer sites, and disposing of these assets at the end of the third Licence extension period; amounts in respect of lost or destroyed terminals and associated contractual costs. This provision will be fully utilised by the end of the third Licence extension period. There is a charge to the statement of comprehensive income for the Group of £2.6m (2017: £nil) in the current year that relates to costs expected to be incurred to complete contractual obligations in relation to additional features on the i-lottery platform delivered to a customer in the year. The provision will be released over the next financial year.

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

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

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

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

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

21. Investment in subsidiaries (Company)

The Company holds investments of £290.2m (2017: £275.0m) in Camelot, CGSL, CBSL and CGLSL. During the year the company acquired £15.2m of shares in CGLSL ultimately for the investment in CI.

22. Share capital (Group and Company)

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

a) Authorised and allotted share capital:

Authorised	**2018 £**	2017 £
1,061,590 ordinary 'A' shares of £0.001 each (2017: 990,001)	**1,062**	990
10 preference 'B' shares of £1 each (2017: 10)	**10**	10
12,770 ordinary 'C' share of £0.001 each (2017: 12,430)	**13**	12
At 31 March	**1,085**	1,012

b) Rights and obligations

Income and capital

Income is distributed amongst the holders of all A and C Ordinary Shares pari passu in proportion to the amounts paid up on those shares. Capital is distributed firstly to the holders of B Ordinary Shares, £1 in respect of each B Ordinary Share held by them, and secondly pro-rated amongst the holders of A and C Ordinary Shares in proportion to the amounts paid up on those shares.

Class consents

Except with the prior consent or approval in writing of the holders of all of the relevant class of shares, the Company shall not modify or vary the rights attaching to any class of its shares (unless the modification or variation affects all classes of shares similarly).

Voting and other rights

In respect of voting rights, the holders of A Ordinary Shares have the right to receive notice of, attend, speak and vote at all general meetings of the Company except in relation to the appointment of a director.

The holders of B Ordinary Shares have the right to receive notice of, attend and vote at all general meetings of the company at which a director is to be elected and have one vote per B ordinary share held with respect to such election; and otherwise the right to receive notice of and attend and speak but not vote at any other general meetings of the Company.

The holders of C Ordinary Shares have the right to receive notice of, attend and speak but not vote at general meetings of the Company (except in respect of a resolution to modify or vary the rights attached to the C Ordinary Shares, in respect of which each holder has one vote per C ordinary share held).

23. Share premium (Group and Company)

	2018 £m	2017 £m
Share premium	**15.2**	-

The Group received an equity investment of £15.2m in the financial year to acquire Camelot Illinois LLC.

24. Reserves (Group and Company)

Group	Share Premium £m	Foreign exchange reserve £m	Other reserves £m	Retained earnings £m	**Total equity £m**
At 1 April 2016	-	(0.3)	(0.2)	(87.3)	(87.8)
Profit for the financial year	-	-	-	40.2	**40.2**
Foreign exchange gains	-	0.3	-	-	**0.3**
Cash flow hedges					
- Fair value losses	-	-	(0.5)	-	**(0.5)**
Dividends paid	-	-	-	(21.9)	**(21.9)**
Tax thereon	-		0.1	-	**0.1**
At 31 March 2017	**-**	**-**	**(0.6)**	**(69.0)**	**(69.6)**

Group	Share Premium £m	Foreign exchange reserve £m	Other reserves £m	Retained earnings £m	**Total equity £m**
At 1 April 2017	-	-	(0.6)	(69.0)	(69.6)
Profit for the financial year	-	-	-	34.0	**34.0**
Cash flow hedges					
- Fair value gains	-	-	0.7	-	**0.7**
Share capital issue	15.2				**15.2**
Tax thereon	-		(0.1)	-	**(0.1)**
At 31 March 2018	**15.2**	**-**	**-**	**(35.0)**	**(19.8)**

The Group holds cash flow hedging contracts with the providers of the bank loans to hedge exposure to interest rate fluctuations (see notes 16 and 17). The movement in other reserves represents unrealised gains or losses on fluctuations in the value of the hedging contracts, net of tax.

24. Reserves (Group and Company) continued

Company	Other reserves £m	Retained earnings £m	Total equity £m
At 1 April 2016	(0.1)	31.5	31.4
Profit for the financial year	-	47.6	**47.6**
Cash flow hedges			
- Fair value gains	(0.6)	-	**(0.6)**
Dividends paid	-	(21.9)	**(21.9)**
At 31 March 2017	**(0.6)**	**57.1**	**56.5**

Company	Share premium £m	Other reserves £m	Retained earnings £m	Total equity £m
At 1 April 2017		**(0.6)**	**57.1**	**56.5**
Profit for the financial year	-	-	44.8	**44.8**
Cash flow hedges				
- Fair value gains	-	0.6	-	**0.6**
Share premium	15.2	-	-	**15.2**
At 31 March 2018	**15.2**	**-**	**101.9**	**117.1**

As permitted by section 408 of the Companies Act 2006, the income statement of the Company has not been presented in the financial statutory financial statements. The profit for the financial year was £44.8m (2017: profit £47.6m).

25. Cash generated from operations

	Group 2018 £m	Group 2017 £m	**Company 2018 £m**	Company 2017 £m
Profit/(loss) for the financial year	**34.0**	40.2	**44.8**	47.6
Adjustments for:				
- Income tax	**9.8**	9.8	**(0.8)**	(1.2)
- Depreciation and amortisation	**54.0**	51.2	**-**	-
- Loss on disposal of fixed asset	**1.8**	-	**-**	-
- Interest income	**(0.3)**	(0.1)	**-**	-
- Interest expense	**7.2**	8.6	**9.0**	10.2
	106.5	109.7	**53.0**	56.6
Changes in working capital:				
- Inventories	**(0.1)**	0.1	**-**	-
- Trade and other receivables	**(119.9)**	83.2	**(32.8)**	8.6
- Trade and other payables	**140.8**	(88.1)	**33.8**	-
- Dissolution of subsidiary	**-**	-	**-**	2.0
- Provisions	**2.9**	(2.4)	**-**	-
	23.7	(7.2)	**1.0**	(10.5)
Cash generated from operations	**130.2**	102.5	**54.0**	67.2

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

At the year end, capital expenditure relating to purchase of property, plant and equipment totalling £0.4m (inclusive of VAT) was contracted for in the year but not yet incurred (2017: £1.2m).

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

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

27. Operating leases (Group)

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

	2018 Land and Buildings £m	**2018 Plant and machinery £m**	2017 Land and buildings £m	2017 Plant and machinery £m
- Within one year	**4.9**	**9.5**	5.3	7.1
- Between two and five years	**14.1**	**32.3**	19.3	6.5
- After five years	**10.9**	**-**	7.9	-
	29.9	**41.8**	32.5	13.6

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

28. Pension arrangements (Group)

In line with UK legislation the Company auto-enrols employees into the Group Personal Pension Plan which is accounted for as a defined contribution pension scheme. All amounts payable under these schemes are charged to the Statement of Comprehensive Income as they fall due, and totalled £2.7m in the current year (2017: £2.6m).

29. Related party transactions (Group and Company)

The Company transacted with its fellow group companies Camelot, CBSL, CGLSL and its parent undertaking PLCUK, during the year.

Receivables from related parties	**Group 2018 £m**	**Company 2018 £m**	Group 2017 £m	Company 2017 £m
Premier Lotteries Capital UK Limited	**0.2**	**0.2**	-	-
Camelot UK limited	-	**1.4**	-	-
Camelot Business Services Limited	-	**26.7**	-	26.9
Camelot Global Lottery Solutions Limited	-	**31.4**	-	-

Payables to related parties	**Group 2018 £m**	**Company 2018 £m**	Group 2017 £m	Company 2017 £m
Premier Lotteries Capital UK Limited	-	-	0.3	-
Camelot UK limited	-	**27.4**	-	27.3
Camelot Business Services Limited	-	**31.8**	-	0.4

Purchases of services	**Group 2018 £m**	**Company 2018 £m**	Group 2017 £m	Company 2017 £m
Camelot UK limited	-	**0.1**	-	0.1

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

	2018 £m	2017 £m
Purchases	**1.0**	1.0
Amounts due to SLE	**0.0**	0.0
Net income	**0.1**	0.1
Amounts due from SLE	**0.0**	0.0

In addition, the Company received £nil (2017: £1.3m) from Camelot UK Lotteries Ltd in respect of group taxation relief during the year.

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

Key management compensation

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

30. Subsidiary undertakings

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

* Directly held by Premier Lotteries UK Limited

The subsidiaries shown above as 'dormant' have share capital, equal to net assets, of £6 in total. This amount represents the Group's cost of investment in these subsidiaries. They are not material for the purpose of giving a true and fair view for these financial statements and therefore have not been consolidated, in accordance with Companies Act 2006 s.393. The registered office for these companies is at Magdalen House, Tolpits Lane, Watford, Hertfordshire, WD18 9RN, United Kingdom.

Premier Lotteries UK Limited

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