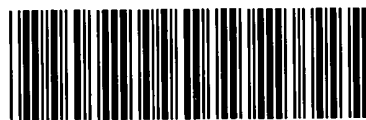


Company Registration No. 07111216 (England and Wales)

THE HEALTH LOTTERY LIMITED
GROUP ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

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THE HEALTH LOTTERY LIMITED

COMPANY INFORMATION

Directors	Mr M S Ellice Mr R Sanderson Mr R Martin Mr D Rancombe
Secretary	Mr R Sanderson
Company number	07111216
Registered office	The Northern & Shell Building Number 10 Lower Thames Street London United Kingdom EC3R 6EN
Auditor	KPMG LLP 15 Canada Square London United Kingdom E14 5GL
Bankers	Barclays Bank 27 Soho Square London United Kingdom W1D 3QR

THE HEALTH LOTTERY LIMITED

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THE HEALTH LOTTERY LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2017

The directors present the strategic report for the year ended 31 December 2017.

Business review and future developments

The Health Lottery Limited is the parent company of The Health Lottery group of companies. The Group is principally engaged in lottery management and money handling and money transfer services. It is the intention of the Group to continue trading in this area for the foreseeable future.

The results for the year are set out on page 8.

Launched in October 2011, The Health Lottery has been successfully established in Great Britain as a highly visible lottery product with strong brand recognition.

The Health Lottery, through its brand, provides lottery management services for 51 Community Interest Companies (CIC's) covering each region of Great Britain who raise monies for health related causes with a specific brief of addressing health inequalities in their individual localities. In a little over 6 years in excess of £100.0 million has been raised for good causes to date, with donations awarded and distributed through a separate Charity, The Peoples Health Trust (PHT).

To date grants through the PHT have been made to more than 2,700 local health projects throughout England, Scotland and Wales which has directly aided around 460,000 people. Among Charities that have benefitted are national charities, such as Scope, The Conservation Volunteers and Youth Sport Trust, in addition to many local community projects such as Special Stars Foundation in Hull, Lightburn Elderly Association in South Lanarkshire and The Parent Network in Caerphilly. Organisations interested in, or enquiring about, funding should apply to The Peoples Health Trust, 356 Holloway Road, London, N7 6PA and application forms are available at www.peopleshealthtrust.org.uk/apply-for-funding.

The directors take great pride in the philanthropic work that has been enabled through the efforts and activities of the Health Lottery and the truly positive effects that it has already had on so many people's lives in this country. However, this has been achieved at some considerable cost to the Group, which as at the end of 2017, has accumulated pre tax losses of £155.0 million on a total investment of £181.2 million since acquiring the business. In order to secure a sustainable future for these charitable works it is vital that in the medium term the business is in a position to cease relying on support from the Northern & Shell group and starts to self-finance its operations.

To that end steady progress was made in the year. Building on solid foundations of the lottery management infrastructure that underpins the business, the Company is actively pursuing projects to develop, manage and provide other services for further new lottery products for its customers. The company has also publicly declared its intention to bid for the next UK National Lottery licence at the appropriate time. Accordingly, the directors are encouraged by the potential of the business and view the future with confidence.

The Group's net liabilities were £80.0 million as at 31 December 2017 (2016: £58.6 million).

THE HEALTH LOTTERY LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

Principal Risks and Uncertainties

The Group's operations expose it to a variety of financial risks that include liquidity, interest rate and lottery market risk. The Group has mechanisms in place that seek to limit the impact of the adverse effects of these risks on the financial performance of the Group.

Liquidity risk

The Group manages its cash and borrowing requirements in order to maximise interest income and minimise interest expense, whilst ensuring the Group has sufficient liquid resources to meet the operating needs of the business.

Interest rate cash flow risk

The Group has interest bearing assets and liabilities. The interest bearing assets and liabilities are cash balances and amounts owed by/to group undertakings subject to floating interest rates. The directors keep these measures under constant review.

Lottery Market risk

The Group actively looks to maintain and improve product quality and customer offerings, which together with established strong customer relationships combine to mitigate lottery market risk.

Geopolitical risk

The June 2016 referendum result for the UK to leave the European Union has raised some short-term economic uncertainties, although they have had apparently no demonstrable impact on the Group. In the medium and long term we believe that a free, independent United Kingdom will grow its economy at a faster rate than if the country remained shackled to a sclerotic European Union and that the benefit of this would flow down to the Group and its operations.

Key Performance Indicators

The Group uses a range of key performance indicators (KPI's) to monitor performance and progress towards strategic objectives. The principal KPI's include: lottery draw ticket sales, profitability, year on year analysis and cash flows.

On behalf of the board



Mr R Sanderson

Director

Date: 18 June 2018

THE HEALTH LOTTERY LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2017

The directors present their annual report and financial statements for the year ended 31 December 2017.

Directors

The directors who held office during the year and up to the date of signature of the financial statements were as follows:

Mr M S Ellice

Dr P Ashford

(Resigned 28 February 2018)

Mr R Sanderson

Mr R Martin

Mr D Rancombe

Results and dividends

The results for the year are set out on page 8.

The group recorded a loss before taxation of £21.9 million (2016: £24.7 million).

No ordinary dividends were paid. The directors do not recommend payment of a final dividend.

Political donations

The Group and the company made no political donations or incurred any political expenditure during the year (2016: £nil).

Employee involvement

During the year, the Group and the company maintained its practice of keeping employees informed about current activities and progress of the business using various methods, including formal briefings and emails. Consultation with employees or their representatives has continued at all levels, with the aim of ensuring their views are taken into account where decisions are likely to affect their interests. This practice is reviewed regularly.

Disabled persons

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment within the group continues and that the appropriate training is arranged. It is the policy of the group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Auditor

The auditor, KPMG LLP, is deemed to be reappointed under section 487(2) of the Companies Act 2006.

Statement of disclosure to auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information of which the auditor of the company is unaware. Additionally, the directors individually have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the auditor of the company is aware of that information.

THE HEALTH LOTTERY LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

Going concern

The Group and the company have net current liabilities and net liabilities. A letter of support has been received from the ultimate parent company, Northern & Shell Limited, stating that this company will provide financial support as necessary to enable the Group and the company to meet their obligations as and when they fall due. Accordingly, the directors are satisfied that it is appropriate to prepare the financial statements on a going concern basis.

On behalf of the board



Mr R Sanderson

Director

Date: 18 June 2018

THE HEALTH LOTTERY LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

The directors are responsible for preparing the Strategic Report, the Directors' 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 they have elected to prepare the group and parent company financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

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 parent company, and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- assess the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are 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, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

THE HEALTH LOTTERY LIMITED

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF THE HEALTH LOTTERY LIMITED

Opinion

We have audited the financial statements of The Health Lottery Limited (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2017 which comprise the Group Statement of Comprehensive Income, the Group Balance Sheet, the Company Balance Sheet, the Group Statement of Changes in Equity, the Company Statement of Changes in Equity and notes to the financial statements, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2017 and of the group's loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities are described below. We have fulfilled our other ethical responsibilities under, and are independent of the group in accordance with, UK ethical requirements including the FRC's Ethical Standard. We believe that the audit evidence we have obtained is sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

THE HEALTH LOTTERY LIMITED

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF THE HEALTH LOTTERY LIMITED

Directors' responsibilities

As explained more fully in their statement set out on page 5, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; 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; assessing the group and parent 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 they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at: <http://www.frc.org.uk/auditorsresponsibilities>.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Mark Prince (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

15 Canada Square
London
United Kingdom
E14 5GL

Date: 18 June 2018

THE HEALTH LOTTERY LIMITED

GROUP STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 £000	2016 £000
Turnover	3	26,550	26,734
Administrative expenses		(46,772)	(50,180)
Operating loss	4	(20,222)	(23,446)
Interest receivable and similar income	8	369	859
Interest payable and similar expenses	9	(2,044)	(2,082)
Loss before taxation		(21,897)	(24,669)
Taxation	10	644	1,096
Loss for the financial year		(21,253)	(23,573)
Other comprehensive income		-	-
Total comprehensive income for the year		(21,253)	(23,573)

The Statement of Comprehensive Income has been prepared on the basis that all operations are continuing operations.

The notes on pages 13 to 25 form an integral part of these financial statements.

THE HEALTH LOTTERY LIMITED

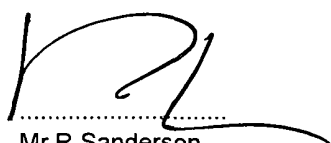
GROUP BALANCE SHEET

AS AT 31 DECEMBER 2017

	Notes	2017 £000	2016 £000	2016 £000	2016 £000
Fixed assets					
Tangible assets	11		527		1,655
			<u>527</u>		<u>1,655</u>
Current assets					
Debtors	14	18,962		12,478	
Cash at bank and in hand		2,044		2,573	
		<u>21,006</u>		<u>15,051</u>	
Creditors: amounts falling due within one year	15	(101,425)		(75,345)	
Net current liabilities			(80,419)		(60,294)
Net liabilities			<u>(79,892)</u>		<u>(58,639)</u>
Capital and reserves					
Called up share capital	17		95		95
Share premium account			56,426		56,426
Profit and loss reserves			(136,413)		(115,160)
Total equity			<u>(79,892)</u>		<u>(58,639)</u>

The notes on pages 13 to 25 form an integral part of these financial statements.

The financial statements were approved by the board of directors and authorised for issue on 18 June 2018 and are signed on its behalf by:



 Mr R Sanderson
 Director

Company Registration No. 07111216

THE HEALTH LOTTERY LIMITED

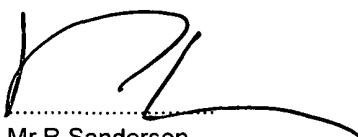
COMPANY BALANCE SHEET

AS AT 31 DECEMBER 2017

	Notes	2017 £000	2016 £000
Fixed assets			
Tangible assets	11	527	1,655
Investments	12	58,441	58,441
		<u>58,968</u>	<u>60,096</u>
Current assets			
Debtors	14	17,120	43,372
Cash at bank and in hand		841	1,173
		<u>17,961</u>	<u>44,545</u>
Creditors: amounts falling due within one year	15	(117,763)	(123,370)
Net current liabilities		(99,802)	(78,825)
Net liabilities		<u>(40,834)</u>	<u>(18,729)</u>
Capital and reserves			
Called up share capital	17	95	95
Share premium account		56,426	56,426
Profit and loss reserves		(97,355)	(75,250)
Total equity		<u>(40,834)</u>	<u>(18,729)</u>

The notes on pages 13 to 25 form an integral part of these financial statements.

The financial statements were approved by the board of directors and authorised for issue on 18 June 2018 and are signed on its behalf by:



Mr R Sanderson
Director

Company Registration No. 07111216

THE HEALTH LOTTERY LIMITED

GROUP STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

	Share capital £000	Share premium account £000	Profit and loss reserves £000	Total £000
Balance at 1 January 2016	95	56,426	(91,587)	(35,066)
Year ended 31 December 2016:				
Total comprehensive income for the year	-	-	(23,573)	(23,573)
Balance at 31 December 2016	95	56,426	(115,160)	(58,639)
Year ended 31 December 2017:				
Total comprehensive income for the year	-	-	(21,253)	(21,253)
Balance at 31 December 2017	95	56,426	(136,413)	(79,892)

The notes on pages 13 to 25 form an integral part of these financial statements.

THE HEALTH LOTTERY LIMITED

COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

	Share capital £000	Share premium account £000	Profit and loss reserves £000	Total £000
Balance at 1 January 2016	95	56,426	(46,904)	9,617
Year ended 31 December 2016:				
Total comprehensive income for the year	-	-	(28,346)	(28,346)
Balance at 31 December 2016	95	56,426	(75,250)	(18,729)
Year ended 31 December 2017:				
Total comprehensive income for the year	-	-	(22,105)	(22,105)
Balance at 31 December 2017	95	56,426	(97,355)	(40,834)

The notes on pages 13 to 25 form an integral part of these financial statements.

THE HEALTH LOTTERY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

1 Accounting policies

Company information

The Health Lottery Limited ("the company") is a private limited company domiciled and incorporated in England and Wales. The registered office is The Northern & Shell Building, Number 10 Lower Thames Street, London, United Kingdom, EC3R 6EN.

The group consists of The Health Lottery Limited and all of its subsidiaries.

1.1 Accounting convention

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £000 (unless stated otherwise).

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of freehold properties and to include investment properties and certain financial instruments at fair value. The principal accounting policies adopted are set out below.

The company is a qualifying entity for the purposes of FRS 102, being a member of a group where the parent of that group prepares publicly available consolidated financial statements, including this company, which are intended to give a true and fair view of the assets, liabilities, financial position and profit or loss of the group. The company has therefore taken advantage of exemptions from the following disclosure requirements for parent company information presented within the consolidated financial statements:

- Section 4 'Statement of Financial Position' – Reconciliation of the opening and closing number of shares;
- Section 7 'Statement of Cash Flows' – Presentation of a statement of cash flow and related notes and disclosures;
- Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instrument Issues' – Carrying amounts, interest income/expense and net gains/losses for each category of financial instrument; basis of determining fair values; details of collateral, loan defaults or breaches, details of hedges, hedging fair value changes recognised in profit or loss and in other comprehensive income;
- Section 33 'Related Party Disclosures' – Compensation for key management personnel.

The Health Lottery Limited is a wholly owned subsidiary of Northern & Shell Limited and the results of The Health Lottery Limited are included in the consolidated financial statements of Northern & Shell Limited which are available from its registered office, The Northern & Shell Building, Number 10 Lower Thames Street, London, EC3R 6EN.

The company has taken advantage of the exemption provided in section 33.1A of Financial Reporting Standard 102 from the requirement to disclose transactions with other wholly owned group members of Northern & Shell Limited.

As permitted by s408 Companies Act 2006, the company has not presented its own profit and loss account and related notes. The company's loss for the year was £22.2 million (2016: a loss of £28.3 million), after incurring a charge for a provision against amounts owed by group undertakings of £24.4 million (2016: £27.0 million).

THE HEALTH LOTTERY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

1 Accounting policies

(Continued)

1.2 Basis of consolidation

In the parent company financial statements, the cost of a business combination is the fair value at the acquisition date of the assets given, equity instruments issued and liabilities incurred or assumed, plus costs directly attributable to the business combination. The excess of the cost of a business combination over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recognised as goodwill. The cost of the combination includes the estimated amount of contingent consideration that is probable and can be measured reliably, and is adjusted for changes in contingent consideration after the acquisition date. Provisional fair values recognised for business combinations in previous periods are adjusted retrospectively for final fair values determined in the 12 months following the acquisition date. Investments in subsidiaries, joint ventures and associates are accounted for at cost less impairment.

The consolidated financial statements incorporate those of The Health Lottery Limited and all of its subsidiaries (ie entities that the group controls through its power to govern the financial and operating policies so as to obtain economic benefits). Subsidiaries acquired during the year are consolidated using the purchase method. Their results are incorporated from the date that control passes.

All financial statements are made up to 31 December 2017. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the group.

All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

1.3 Going concern

The Group and the company have net current liabilities and net liabilities. A letter of support has been received from the ultimate parent company, Northern & Shell Limited, stating that this company will provide financial support as necessary to enable the Group and the company to meet their obligations as and when they fall due. Accordingly, the directors are satisfied that it is appropriate to prepare the financial statements on a going concern basis.

1.4 Turnover

Turnover is recognised at the fair value of the consideration received or receivable for goods and services provided in the normal course of business, and is shown net of VAT and other sales related taxes. The fair value of consideration takes into account trade discounts, settlement discounts and volume rebates.

When cash inflows are deferred and represent a financing arrangement, the fair value of the consideration is the present value of the future receipts. The difference between the fair value of the consideration and the nominal amount received is recognised as interest income.

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer (usually on dispatch of the goods), the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Turnover represents the amount receivable for lottery management, money handling and money transfer services and is recognised when the lottery draw to which the service relates has taken place.

1.5 Tangible fixed assets

Tangible fixed assets are initially measured at cost and subsequently measured at cost or valuation, net of depreciation and any impairment losses.

THE HEALTH LOTTERY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

1 Accounting policies

(Continued)

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives on the following bases:

Plant and equipment	3 to 5 years
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The Group reviews its depreciation rates regularly to take account of technological changes, intensity of use over the life of the assets and market requirements.

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset, and is recognised in the profit and loss account.

1.6 Fixed asset investments

Equity investments are measured at fair value through profit or loss, except for those equity investments that are not publicly traded and whose fair value cannot otherwise be measured reliably, which are recognised at cost less impairment until a reliable measure of fair value becomes available.

In the parent company financial statements, investments in subsidiaries, associates and jointly controlled entities are initially measured at cost and subsequently measured at cost less any accumulated impairment losses.

A subsidiary is an entity controlled by the group. Control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

1.7 Impairment of fixed assets

At each reporting period end date, the group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The carrying amount of the investments accounted for using the equity method is tested for impairment as a single asset. Any goodwill included in the carrying amount of the investment is not tested separately for impairment.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Recognised impairment losses are reversed if, and only if, the reasons for the impairment loss have ceased to apply. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

THE HEALTH LOTTERY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

1 Accounting policies

(Continued)

1.8 Cash and cash equivalents

Cash at bank and in hand are basic financial assets and include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

1.9 Financial instruments

The group has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial instruments are recognised in the group's balance sheet when the group becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Basic financial assets

Basic financial assets, which include debtors and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Financial assets classified as receivable within one year are not amortised.

Impairment of financial assets

Financial assets, other than those held at fair value through profit and loss, are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been, had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

Derecognition of financial assets

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire or are settled, or when the group transfers the financial asset and substantially all the risks and rewards of ownership to another entity, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party.

Classification of financial liabilities

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

THE HEALTH LOTTERY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

1 Accounting policies

(Continued)

Basic financial liabilities

Basic financial liabilities, including creditors, bank loans, loans from fellow group companies and preference shares that are classified as debt, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest. Financial liabilities classified as payable within one year are not amortised.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Amounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade creditors are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Derecognition of financial liabilities

Financial liabilities are derecognised when the group's contractual obligations expire or are discharged or cancelled.

1.10 Equity instruments

Equity instruments issued by the group are recorded at the proceeds received, net of direct issue costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the group.

1.11 Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date, and any adjustment to tax payable/receivable in respect of previous years.

Deferred tax

Deferred tax liabilities are generally recognised for all timing differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Such assets and liabilities are not recognised if the timing difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the standard enacted rate of corporation tax in the UK of 17% (2016: 17%). Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

1.12 Retirement benefits

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

THE HEALTH LOTTERY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

2 Judgements and key sources of estimation uncertainty

In the application of the group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised where the revision affects only that period, or in the period of the revision and future periods where the revision affects both current and future periods.

The directors consider the judgement associated with these financial statements to be over the carrying value of investments.

3 Turnover

An analysis of the group's turnover is as follows:

	2017 £000	2016 £000
Provision of services	26,010	26,472
Commission	540	262
	<u>26,550</u>	<u>26,734</u>

Turnover analysed by geographical market

	2017 £000	2016 £000
United Kingdom	<u>26,550</u>	<u>26,734</u>

4 Operating loss

	2017 £000	2016 £000
Operating loss for the year is stated after charging/(crediting):		
Depreciation of owned tangible fixed assets	1,610	1,419
Impairment of owned tangible fixed assets	597	-
	<u>2,207</u>	<u>1,419</u>

5 Auditor's remuneration

	2017 £000	2016 £000
Fees payable to the company's auditor and associates:		
For audit services		
Audit of the financial statements of the group and company	19	15
Audit of the company's subsidiaries	32	30
	<u>51</u>	<u>45</u>

THE HEALTH LOTTERY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

5 Auditor's remuneration

(Continued)

Fees paid to the company's auditor, KPMG LLP, and its associates for services other than the statutory audit of the company and its subsidiaries are not disclosed in The Health Lottery Limited's accounts since the consolidated accounts of The Health Lottery Limited's ultimate parent, Northern & Shell Limited, are required to disclose other services on a consolidated basis.

6 Employees

The average monthly number of persons (including directors) employed by the group and company during the year was:

	2017 Number	2016 Number
Sales	2	2
Administration	25	25
	<u>27</u>	<u>27</u>

Their aggregate remuneration comprised:

	2017 £000	2016 £000
Wages and salaries	1,246	1,215
Social security costs	117	115
Pension costs	28	28
	<u>1,391</u>	<u>1,358</u>

7 Directors' remuneration

	2017 £000	2016 £000
Remuneration for qualifying services	206	227
Company pension contributions to defined contribution schemes	4	3
	<u>210</u>	<u>230</u>

The number of directors for whom retirement benefits are accruing under defined contribution schemes amounted to 5 (2016 - 5).

Remuneration disclosed above includes the following amounts paid to the highest paid director:

Remuneration for qualifying services	53	51
Company pension contributions to defined contribution schemes	1	2
	<u>54</u>	<u>53</u>

THE HEALTH LOTTERY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

8 Interest receivable and similar income

	2017 £000	2016 £000
Interest on bank deposits	-	3
Interest receivable from group undertakings	369	856
	<u>369</u>	<u>859</u>

9 Interest payable and similar expenses

	2017 £000	2016 £000
Interest payable to group undertakings	2,044	2,082
	<u>2,044</u>	<u>2,082</u>

10 Taxation

	2017 £000	2016 £000
Current tax		
Adjustments in respect of prior periods	(309)	826
Group tax relief	-	(2,359)
Total current tax	<u>(309)</u>	<u>(1,533)</u>
Deferred tax		
Origination and reversal of timing differences	(379)	(185)
Adjustment in respect of prior periods	44	622
Total deferred tax	<u>(335)</u>	<u>437</u>
Total tax credit	<u>(644)</u>	<u>(1,096)</u>

A reduction in the UK Corporation Tax rate from 20% to 19% was (effective from 1 April 2017) substantively enacted on 26 October 2015. An additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly. The deferred tax asset at 31 December 2017 has been calculated based on these rates.

THE HEALTH LOTTERY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

10 Taxation

(Continued)

The actual credit for the year can be reconciled to the expected credit based on the profit or loss and the standard rate of tax as follows:

	2017 £000	2016 £000
Loss before taxation	(21,897)	(24,669)
Expected tax credit based on the standard rate of corporation tax in the UK of 19.25% (2016: 20.00%)	(4,215)	(4,934)
Net effect of expenses not deductible for tax and income not subject to tax	-	2
Adjustments in respect of prior years	(265)	1,448
Effect of change in corporation tax rate	50	150
Deferred tax asset not recognised	2,128	2,238
Group relief not paid for	1,658	-
Taxation for the year	(644)	(1,096)

The Group has tax losses of £50.1 million (2016: £40.0 million) available to carry forward against future profits. Whilst the Group expects to be able to benefit from tax losses carried forward, a deferred tax asset has not been recognised in respect of the available losses (2016: £nil) as future benefit is not certain and losses may be surrendered to other group companies.

11 Tangible fixed assets

Group	Plant and equipment £000
Cost	
At 1 January 2017	4,608
Additions	1,079
At 31 December 2017	5,687
Depreciation and impairment	
At 1 January 2017	2,953
Depreciation charged in the year	1,610
Impairment losses	597
At 31 December 2017	5,160
Carrying amount	
At 31 December 2017	527
At 31 December 2016	1,655

THE HEALTH LOTTERY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

11 Tangible fixed assets		(Continued)
Company		Plant and equipment
		£000
Cost		
At 1 January 2017		4,608
Additions		1,079
At 31 December 2017		5,687
Depreciation and impairment		
At 1 January 2017		2,953
Depreciation charged in the year		1,610
Impairment losses		597
At 31 December 2017		5,160
Carrying amount		
At 31 December 2017		527
At 31 December 2016		1,655

12 Fixed asset investments					
	Notes	Group 2017 £000	2016 £000	Company 2017 £000	2016 £000
Investments in subsidiaries	13	-	-	58,441	58,441

Impairment testing:

The company's policy is to carry out annual reviews of its investments. Based on operating results for the subsidiary undertakings, future forecasts and their net assets, including attributable value for their infrastructure and distribution network, the directors consider that the investments' recoverable amount is greater than its carrying amount and consequently no impairment is considered necessary.

13 Subsidiaries

Details of the company's subsidiaries at 31 December 2017 are as follows:

Name of undertaking	Registered office	Nature of business	Class of shares held	% Held Direct Indirect
Health Lottery ELM Limited	United Kingdom	Lottery management services	Ordinary	100.00
Health Lottery Financial Limited	United Kingdom	Money handling and money transfer services	Ordinary	100.00
Health Lottery Trustee Company Limited	United Kingdom	Dormant	Ordinary	100.00

THE HEALTH LOTTERY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

13 Subsidiaries

(Continued)

The above subsidiary undertakings are 100% owned and incorporated in the United Kingdom, with a registered office at The Northern & Shell Building, 10 Lower Thames Street, London, EC3R 6EN.

There were no changes in ownership or class of shares held during the year.

14 Debtors

	Group		Company	
	2017	2016	2017	2016
	£000	£000	£000	£000
Amounts falling due within one year:				
Amounts due from group undertakings	4,542	881	13,941	40,184
Amounts due from group undertakings with respect to group relief	5,889	5,581	-	-
Other debtors	2,225	2,434	278	-
Prepayments and accrued income	3,987	1,599	582	1,205
	<u>16,643</u>	<u>10,495</u>	<u>14,801</u>	<u>41,389</u>
Deferred tax asset (note 16)	2,319	1,983	2,319	1,983
	<u>18,962</u>	<u>12,478</u>	<u>17,120</u>	<u>43,372</u>

Amounts owed by group undertakings carry interest at 2.0% above base rate, are unsecured and repayable on demand. Amounts owed by group undertakings with respect to group relief are non interest bearing, unsecured and repayable on demand.

15 Creditors: amounts falling due within one year

	Group		Company	
	2017	2016	2017	2016
	£000	£000	£000	£000
Trade creditors	912	1,217	912	1,217
Amounts due to group undertakings	80,423	63,998	111,265	115,453
Amounts due to group undertakings with respect to group relief	-	-	2,266	2,379
Other taxation and social security	157	32	31	35
Other creditors	3,479	3,451	20	24
Accruals and deferred income	16,454	6,647	3,269	4,262
	<u>101,425</u>	<u>75,345</u>	<u>117,763</u>	<u>123,370</u>

Amounts due to group undertakings carry interest at 2.0% above base rate, are unsecured and repayable on demand. Amounts due to group undertakings with respect to group relief are non interest bearing, unsecured and repayable on demand.

THE HEALTH LOTTERY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

16 Deferred taxation

The following is the analysis of the deferred tax balances for financial reporting purposes:

	Assets 2017 £000	Assets 2016 £000
Group		
Accelerated capital allowances	2,319	1,983
	<u>2,319</u>	<u>1,983</u>
	Assets 2017 £000	Assets 2016 £000
Company		
Accelerated capital allowances	2,319	1,983
	<u>2,319</u>	<u>1,983</u>
	Group 2017 £000	Company 2017 £000
Movements in the year:		
Liability/(asset) at 1 January 2017	(1,983)	(1,983)
Credit to profit or loss	(336)	(336)
	<u>(2,319)</u>	<u>(2,319)</u>
Liability/(asset) at 31 December 2017	<u>(2,319)</u>	<u>(2,319)</u>

17 Share capital

	Group and company 2017 £000	2016 £000
Ordinary share capital		
Issued and fully paid		
95,002 Ordinary of £1 each	95	95
	<u>95</u>	<u>95</u>

18 Financial commitments, guarantees and contingent liabilities

In 2015, Health Lottery ELM Limited, a subsidiary undertaking, entered into contracts for the provision of advertising and production services. Under the terms of the contracts, the company is committed to a minimum annual media spend of £21.8 million and a minimum annual production spend of £5.4 million for the periods ending 31 December 2018 and 30 September 2018 respectively.

THE HEALTH LOTTERY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

19 Controlling party

The immediate parent undertaking is Northern & Shell Health Limited and the ultimate parent undertaking is Northern & Shell Limited, both companies are incorporated in England.

The ultimate controlling party is Richard Desmond, the Chairman of Northern & Shell Limited.

The largest and smallest groups into which these accounts are consolidated is Northern & Shell Limited. Northern & Shell Limited is registered in England. Copies of the financial statements of Northern & Shell Limited can be obtained from: The Northern & Shell Building, Number 10 Lower Thames Street, London, EC3R 6EN, United Kingdom.