

Further information requirements

Chapter

22

22 Further information requirements

22.1 Introduction

This chapter sets out further information that each Bidder is asked to submit. The information provided here is intended to be for information purposes only and will not be taken into account as part of the evaluation.

22.2 Co-operation in the event of a Handover

In response to this section, each Bidder is asked to outline the extent and nature of co-operation that may be required in the event of a Handover to a Successful Bidder other than the Current Operator. Each Bidder is asked to highlight any critical areas of co-operation. It is also asked to suggest a proposed framework for co-operation in the event of a Handover.

22.3 Proposals for independent third party investigation of disputes and complaints

The Commission is considering incorporating proposals for independent third party investigation and assessment of eligible complaints within the Draft Licence. Such an independent third party would be required, based on that assessment, to make appropriate recommendations as to how eligible complaints should be resolved.

The Commission has yet to formalise the detail surrounding such a system, and requests that each Bidder consider how such a system would work. Each Bidder must set out high-level details outlining the process and conditions proposed for such a system, including any draft heads of terms for such independent third party assessment. When referring to eligible complaints, the Commission does not intend to include disputes over whether prizes should be paid by the Licensee, but rather to include complaints that relate to the service provided by the Licensee. Each Bidder should include in its proposals the types of complaint that it might deem eligible.

The Commission intends to use this submission as a basis for discussion with the Preferred Bidder for incorporation into the Draft Licence.

22.4 TUPE

In response to this section, each Bidder is asked to set out its rationale as to whether TUPE will apply to the grant of the Licence and must set out the basis for their stated view.

22.5 Compliance/audit systems

The Commission wishes to have the capability of using compliance/audit software and/or systems to interrogate the Bidder's gaming systems and databases in read-only form. Ideally, the Commission would wish this capability to be available remotely and in real-time.

Each Bidder is asked to inform the Commission whether it provides compliance/audit software and/or systems with this capability.

Each Bidder is asked to indicate whether this would be an integral part of its system that the Bidder would pay for but provide the Commission with access to, or whether it would be a stand-alone system that the Commission would pay and be responsible for. In the latter case, the bidder should identify key operational prerequisites needed for the software to run (hardware, underlying software, network connections etc.).

Each Bidder is asked to indicate the extent to which its gaming systems support interoperability with third party audit/compliance systems of the nature described above.

Appendices

Appendix

Consortium definitions

A

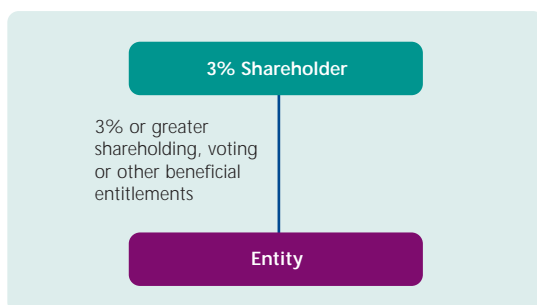
A. Consortium definitions

A.1. Introduction

This appendix provides a list of definitions relating to the Consortium and the relationships within a Consortium.

A.2. 3 per cent Shareholder

Figure A.2. 3 per cent Shareholder

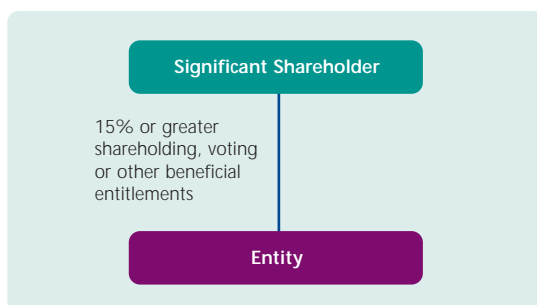


A 3 per cent Shareholder in relation to another party is one that:

- Holds, or intends to hold, an ownership interest of 3 per cent or more in that party;
- Holds, or intends to hold, voting rights, relating to any class of share, of 3 per cent or more in that party; or
- Holds, or intends to hold, any other beneficial entitlement of 3 per cent or more of that entitlement e.g. dividend rights.

A.3. Significant Shareholder

Figure A.3. Significant Shareholder

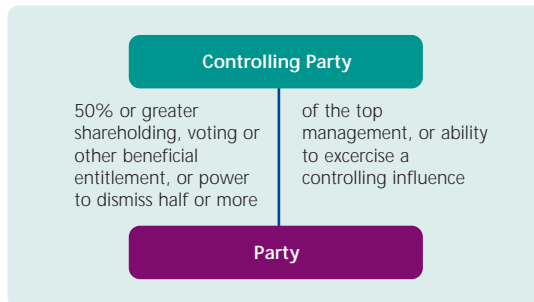


A Significant Shareholder in relation to another party is one that is capable of exerting control or significant influence over that party. A Significant Shareholder is, therefore, defined as a party that:

- Holds, or intends to hold, an ownership interest of 15 per cent or more in that party;
- Holds, or intends to hold, voting rights, relating to any class of share, of 15 per cent or more in that party; or
- Holds, or intends to hold, any other beneficial entitlement of 15 per cent or more of that entitlement e.g. dividend rights.

A.4. Controlling Party

Figure A.4. Controlling Party

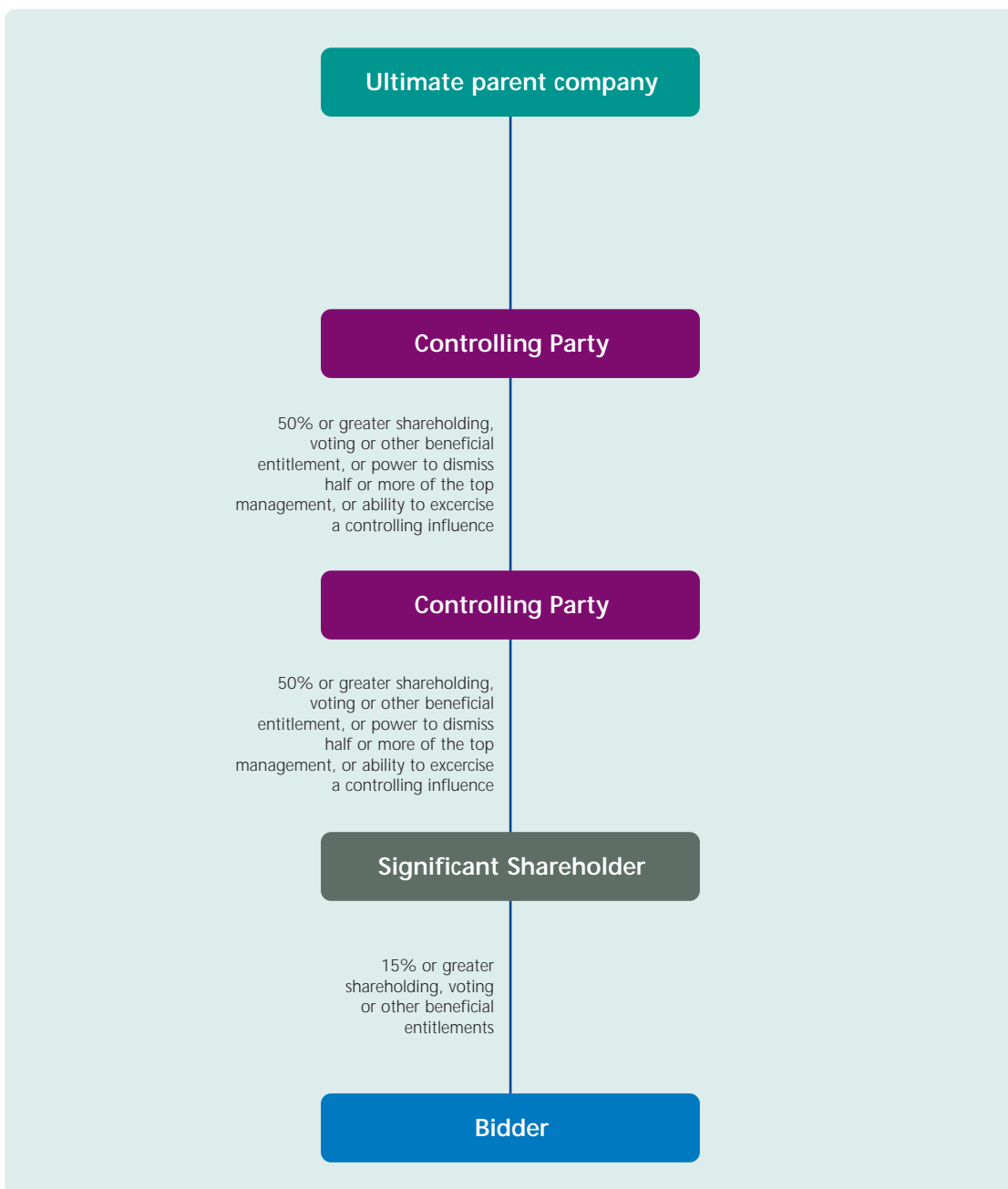


A Controlling Party in relation to another party is one that:

- Holds, or intends to hold, an ownership interest of 50 per cent or more in that party;
- Holds, or intends to hold, voting rights, relating to any class of share, of 50 per cent or more in that party;
- Holds, or intends to hold, any other beneficial entitlement of 50 per cent or more of that entitlement e.g. dividend rights;
- Has, or is intended to have, the power to dismiss half or more of the party's board of directors; or
- Otherwise has, or is intended to have, the ability to exercise a controlling influence.

A.5. Bid Group

Figure A.5. Bid Group

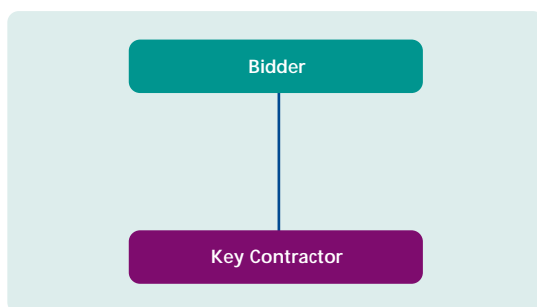


A Bid Group is defined, in respect of a Bidder, as:

- The Bidder and its subsidiaries;
- The Bidder's Significant Shareholders;
- In respect of those Significant Shareholders, any Controlling Parties; and
- In respect of a Controlling Party, that person's Controlling Parties, and so on up to the ultimate parent company.

A.6. Key Contractors

Figure A.6. Key Contractor



A Key Contractor is defined as a party that provides services of a material nature to a Bidder, either directly or via a subcontract.

The following key principles apply when considering whether a supplier or contractor falls under the definition of Key Contractor. It will do so if:

- It provides services that are material to structure and content of any Bid;
- If it provides services that are not commodity-type in nature but are unique, bespoke or tailored;
- It is not easily replaced without material risk to the delivery of a Bid or its proposals; or
- The cost of an alternative supplier or contractor would likely be significantly different.

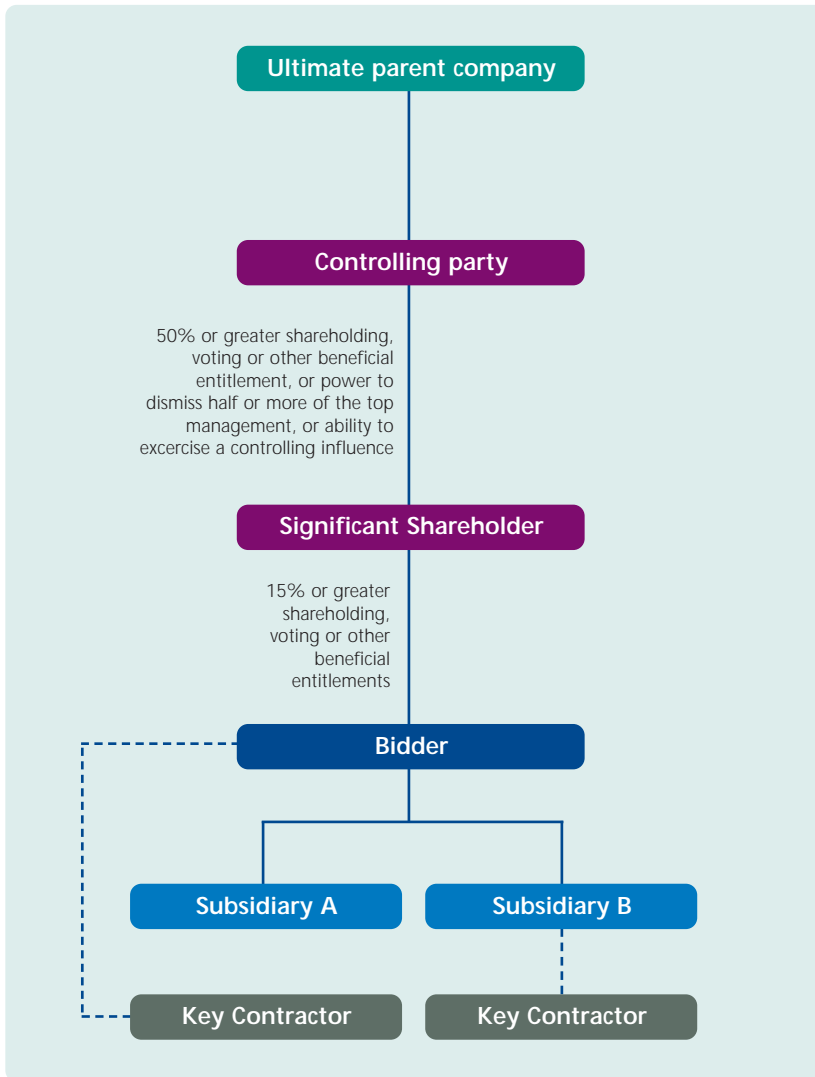
The Commission reserves the right, in its absolute discretion, to classify any contractor or supplier as a Key Contractor and to seek relevant information as appropriate.

For the avoidance of doubt, scratchcard providers may be classified as a commodity supplier and not as a Key Contractor provided that the Bidder is able to satisfy the Commission that the products or services provided are genuinely commodity-type in nature and that the Bidder has made sufficient cost provision for those services with, for example, reference to indicative terms available within the market.

Where a Bidder does not classify suppliers as Key Contractors and is therefore able to obtain advantageous terms by settling contracts after it may be selected as the Preferred Bidder, the Commission wishes to understand how any cost savings may flow, in whole or in part, to the good causes, for example, through secondary contributions.

A.7. Consortium

Figure A.7. Consortium



A Consortium is defined as the Bid Group and any Key Contractors.

Appendix

Common Sales Scenario

B

Common Sales Scenario

B.1. Introduction

This Appendix sets out the Common Sales Scenario. Each Bidder should note that this is not intended to represent the Commission's own forecast, or an indication of the outcome the Commission considers most likely. Instead, it is designed to assist the evaluation of each Bidder's business plan and returns to good causes, as described in chapter 14.

B.2. Lottery sales in the United Kingdom

In order to derive the Common Sales Scenario the Commission has reviewed historic data on sales of Lottery tickets. This data is shown in Table 9 below. Bidders should note that additional data is available in the data room.

Table B.2. Lottery Sales 1994-2005⁴⁵

Year	Draw-based (£m)	Scratchcards (£m)	Interactive Instant Win Games (£m)
1994	370	–	–
1995	3,427	1,261	–
1996	3,805	936	–
1997	4,645	804	–
1998	4,592	715	–
1999	4,381	576	–
2000	4,523	547	–
2001	4,260	568	–
2002	4,086	580	–
2003	3,940	615	2
2004	4,022	693	17.8
2005	4,074	795	49

Note: Sales figures are at actual and not constant prices.

⁴⁵ Data on sales are provided on a weekly basis. For sales made in the last week of the year, Wednesday and Saturday draw sales are allocated to the year in which the day of the draw occurs. Other sales are allocated to the year in which the Saturday of the weekly sales occurs.

B.3. The Common Sales Scenario

The Common Sales Scenario covers the whole of the Licence Period. The Commission has adopted a Common Sales Scenario that assumes modest growth of one per cent per annum in Lottery sales from end 2005 to 2019 after correcting for the impact of inflation. Resulting sales on an annual basis are shown in Table B.3 below. Sales are shown in nominal terms assuming inflation of two per cent per annum.

Table B.3. The Common Sales Scenario

Year of Licence	Total sales (£m)
2009	5,566
2010	5,734
2011	5,908
2012	6,086
2013	6,270
2014	6,459
2015	6,654
2016	6,855
2017	7,062
2018	7,276

Note: Figures relate to the period from 1 February in the year listed, to 31 January, in the following year.

The Commission expects that the split of revenue from sales of the three main types of game (draw-based games; scratchcards; and interactive) will change over time, and indeed that Bidders' strategies may differ as to the relative importance to be given to the development of different games. In 2005 as a whole the split of sales between games was as follows: draw-based 83 per cent; scratchcards 16 per cent; interactive instant win games 1 per cent. However some other plays are sold interactively since some draw-based games are sold interactively, and by early 2006 total interactive sales had risen in some weeks to 6 per cent of total sales, of which about one-quarter were accounted for by Instant Win Games and some three-quarters by draw-based plays. The Commission expect that interactive plays could rise further by the first year of the Licence.

For the 12 months from 1 February 2009 Bidders should assume the following split of sales between game types:

- Draw-based games distributed through retailers – 76 per cent;
- Scratchcards – 15 per cent;
- Draw-based games not distributed through retailers – 6.75 per cent; and
- Interactive instant win games – 2.25 per cent.

Thereafter, Bidders should specify the expected split of total sales (as shown in Table B.3) between these game types in each year of the Licence that best accords with their own business plans in different years of the Licence.

Business plan outputs

Appendix

C

C. Business plan outputs

This Appendix sets out the format for the output sheets to be used in each version of a Bidder's business plan.

Bidders are reminded to submit each version of their business plans in the form of an integrated, Excel-based financial model, together with hard copies of the entire financial model. Supporting notes can be supplied in Word or Excel as required.

Each version of the business plan must include the following outputs:

- Separate worksheets showing annual income statement, cash flow statements and balance sheets for the duration of the Licence Period;
- Further separate worksheets showing the monthly income statement, cash flow statements and balance sheets for the Transition Period and the first two full years of the Licence.

In each case, these output sheets must substantially conform to the format set out here. However, if a Bidder wishes to include additional categories, it should do so.

In order to assist Bidders, versions of these outputs are provided in Excel format on the Commission's website.

Table C.1. Income Statement

Periods ended 31 March	Period 1	Period 2	Period 3	Etc
REVENUES				
Gross income from ticket sales				
Draw based games (retailer distributed)				
Draw based games (other distribution channels)				
Scratchcards				
Interactive instant win games				
Total income from ticket sales				
Lottery Duty				
Payments for prize liabilities				
Draw based games (retailer distributed)				
Draw based games (other distribution channels)				
Scratchcards				
Interactive instant win games				
Total payments for prize liabilities				
Contributions				
Primary Contributions				
to NLDF				
to OLF				
Secondary Contributions (if applicable)				
to NLDF				
to OLF				
Total Contributions				
Retailers' Commission				
GROSS PROFIT				
COSTS				
Operating costs				
Logistics				
Scratchcard printing & distribution				
Consumables & distribution				
Central Functions				
Game Licence Fees				
Application Software				
Technology Infrastructure				
Technical Operations				
Customer Support				
Central Administration				
Security Management and Internal Audit				
Retailer Functions				
Retailer support staff costs				
Retailer training costs				
Retailer bad debts				
Salesforce staff costs				
Operator owned terminals				
Other technology costs				
Other Distribution Channels				
Play related payments to channel providers				
Transaction fees				
Staff costs				
Technology costs				
Marketing				
Advertising and promotion				
Retail / p.o.s. materials				
New channel marketing costs				
PR research and other costs				
Marketing staff costs				
Leasing costs				
Other				
Total operating costs				
Other costs				
Depreciation & amortisation				
Total other costs				
TOTAL COSTS				

Table C.1. Income Statement (continued)

Periods ended 31 March	Period 1	Period 2	Period 3	Etc
PROFITS				
Operating Profit				
Interest receivable				
Interest payable				
Profit before taxation				
Corporation tax payable				
Deferred Tax				
Profit after taxation				
Dividend – interim				
Dividend – final				
RETAINED PROFIT				
Explanation of Expense Categories				
Central Functions:				
Game Licence Fees				Includes payments for Intellectual Property (excludes software licence costs)
Application Software				Includes software licence costs, in-house development staff, systems integration, testing, maintenance
Technology Infrastructure				Includes central hardware, systems software, all telecommunications, security systems
Technical Operations				Includes staff costs running the technology, data centres, buildings
Customer Support				Includes staff costs
Central Administration				Includes staff costs, facilities, donations, legal & professional
Security Management and Internal Audit				Includes staff costs

Table C.2. Balance Sheet

Periods ended 31 March	Period 1	Period 2	Period 3	Etc
ASSETS				
Non-current assets				
Property, Plant and Equipment				
Intangible fixed assets				
Other receivables				
Deferred income tax assets				
Financial assets				
trusts and deposits				
Total non-current assets				
Current assets				
Inventories				
Trade and other receivables				
Financial assets				
Amounts held in trust in respect of prizes				
Amounts held in trust in respect of future draws				
Amounts held in New Media Trust account				
Prepayments and accrued income				
Cash and cash equivalents				
Total current assets				
Total assets				
LIABILITIES				
Current liabilities				
Trade and other payables				
Bank overdrafts				
Current portion of interest bearing loans & borrowings				
Obligations under finance leases				
Non-current asset payables				
Taxation and social security				
Lottery duty				
Amounts payable to the NLDF				
Amounts payable to the OLF				
Prize liability				
Accruals and deferred income				
Advance receipts for future draws				
Proposed dividends				
Total current liabilities				
Non-current liabilities				
Interest bearing loans & borrowings				
Employee Benefits				
Provisions for other liabilities and charges				
Deferred tax				
Total non-current liabilities				
Total liabilities				
EQUITY				
Capital and reserves				
Share capital				
Share premium				
Reserves				
Accumulated profits/(losses)				
Total equity				
Total equity and liabilities				
Note:				
New Media Trust: represents the aggregate of all players' online wallet balances.				

Table C.3. Cash Flow Statement

Periods ended 31 March	Period 1	Period 2	Period 3	Etc
Cash flows from operating activities				
Income from Draw based games (retailer distributed)				
Income from Draw based games (other distribution channels)				
Income from Scratchcards				
Income from Interactive instant win games				
Lottery Duty				
Prizes				
Contributions to the NLDF				
Contributions to the OLDF				
Retailers' Commission				
Operating costs				
Change in working capital				
Cash generated from operations				
Interest paid				
Interest element of finance lease rental payments				
Taxation paid				
Net cash from operating activities				
Cash flows from investing activities				
Decrease/(increase) in non-current financial assets				
Purchases of property, plant and equipment				
Interest received				
Expenditure on intangible fixed assets				
Net cash used in investing activities				
Cash flows from financing activities				
Issue of share capital				
Proceeds from borrowings				
Repayments of borrowings				
Finance lease capital payments				
Dividends paid				
Net cash used in financing activities				
Net increase/(decrease) in cash and bank overdrafts				
Cash and cash equivalents at the beginning of the period/year				
Cash and cash equivalents at the end of the period/year				
Peak borrowing requirement				
Month in which it occurs				
Borrowing Facilities available				
Debt Facilities drawn down				
Remaining available headroom				
Note:				
This cashflow statement commences with those Income Statement categories listed prior to Operating Profit (excluding depreciation/amortisation).				

Table C.4. Financial Ratios

Periods ended 31 March	Period 1	Period 2	Period 3	Etc
Number of months				
Return on equity (%) = Profit after Tax/Total Equity				
Return on assets (%) = Profit after Tax/Total Assets				
Return on capital employed (%) = Operating Profit/Total Equity + Interest Bearing Loans & Borrowings				
Leverage (%) = Interest Bearing Loans & Borrowings/Total Equity				
Gearing (%) = Interest Bearing Loans & Borrowings /Interest Bearing Loans & Borrowings + Total Equity				
EBIT Cover = Operating Profit/Interest Payable				
EBITDA Cover = Operating Profit + Depreciation & Amortisation /Interest Payable				
Tangible Net Worth = Total Assets less Intangible Fixed Assets less Total Liabilities				
Net Debt / EBITDA (%) = Interest Bearing Loans & Borrowings less Cash and Cash equivalents/Operating Profit + Depreciation & Amortisation				
Current Ratio (%) = Total Current Assets/Total Current Liabilities				
Any other financial ratios to the extent they are implicitly or explicitly provided for within the term sheets relating to any existing or intended debt financing facilities.				

Summary of data room contents

Appendix

D

D. Summary of data room contents

This section provides a summary of the key categories of information contained in the data room:

- Sales information by game;
- Interactive sales information;
- Average weekly sales by television region;
- Data regarding subscription sales;
- Information on NLDF funding for games;
- Coverage of number combinations for Lotto and EuroMillions;
- Retailer information, including:
 - Sales by postcode district;
 - Breakdown of distribution of retail outlets by sales bands;
 - Individual retailer information;
- Details of marketing expenditure;
- Data regarding ancillary activities;
- Data regarding unpaid and unclaimed prizes;
- Player care, complaint and contact metrics;
- Security and incident analysis and data;
- Retailer care, selection and contact metrics;
- Selected technology information;
- Data regarding interactive channel registrations;
- Channel transaction volume data;
- Example trust deed;
- Market research;
- Current codes of practice and procedures;
- Information concerning intellectual property.

Retention rates – worked example

Appendix

E

E. Retention rates – worked example

E.1. Introduction

This worked example illustrates how the Licensee's total retention is determined (for a single year). The numbers used in this example are purely hypothetical, and are included here for illustrative purposes only (though the total sales assumptions are consistent with the Common Sales Scenario).

E.2. Assumptions

We assume that total (gross) sales are as follows:

	£ million
Draw-based games distributed through retailers	4,230
Draw-based games not distributed through retailers	376
Scratchcards	835
Interactive instant win games	125
Total	5,566

We also assume that Lottery Duty is 12 per cent of total sales, retailer commission is 5 per cent of total sales (for draw-based games and Scratchcards), and the Licensee's games have the following prize payout ratios:

	Prizes as % of sales
Draw-based games	45
Scratchcards	60
Interactive instant win games	65

Finally, we assume that the Licensee bids the following retention rates. For simplicity, we assume the Licensee specifies only four tranches.

Draw based games distributed through retailers

Gross Sales Retention

Tranche	Lower bound (£m)	Upper bound (£m)	Retention rate (%)
1	0	1,500	2
2	1,500	3,000	1.5
3	3,000	4,500	1
4	4,500	unlimited	0.5

Net Sales Retention

Tranche	Lower bound (£m)	Upper bound (£m)	Retention rate (%)
1	0	250	60
2	250	750	3
3	750	1,000	4
4	1,000	unlimited	5

Draw based games not distributed through retailers

Gross Sales Retention

Tranche	Lower bound (£m)	Upper bound (£m)	Retention rate (%)
1	0	150	8
2	150	300	7
3	300	450	6
4	450	unlimited	5

Net Sales Retention

Tranche	Lower bound (£m)	Upper bound (£m)	Retention rate (%)
1	0	75	2
2	75	100	3
3	100	125	4
4	125	unlimited	5

Scratchcards

Gross Sales Retention

Tranche	Lower bound (£m)	Upper bound (£m)	Retention rate (%)
1	0	250	3
2	250	750	2.5
3	750	1000	2
4	1,000	unlimited	1.5

Net Sales Retention

Tranche	Lower bound (£m)	Upper bound (£m)	Retention rate (%)
1	0	40	70
2	40	100	6
3	100	150	7
4	150	unlimited	8

Interactive instant win games

Gross Sales Retention

Tranche	Lower bound (£m)	Upper bound (£m)	Retention rate (%)
1	0	50	8
2	50	100	7
3	100	500	6
4	500	unlimited	5

Net Sales Retention

Tranche	Lower bound (£m)	Upper bound (£m)	Retention rate (%)
1	0	10	10
2	10	25	12
3	25	50	15
4	50	unlimited	20

E.3. Step 1: Calculating the Gross Sales Retention

The Gross Sales Retention, which is based on the total value of ticket sales for each type of game, is then calculated as follows.

Gross Sales Retention: Draw based games distributed through retailers

[1] Tranche	[2] Lower bound (£m)	[3] Upper bound (£m)	[4] Retention rate (%)	[5] Revenue in tranche (£m)	[6] Retention for tranche (£m)
1	0	1,500	2	1,500	30.0
2	1,500	3,000	1.5	1,500	22.5
3	3,000	4,500	1	1,230	12.3
4	4,500	unlimited	0.5	0	0
Total				4,230	64.8

Notes:

Columns 1-4 are taken from the Licensee's bid, as described in the above tables.

Column 5 shows the (gross) sales revenue that falls within each tranche.

Column 6 is column 4 x column 5.

Gross Sales Retention: Draw based games not distributed through retailers

Tranche	Lower bound (£m)	Upper bound (£m)	Retention rate (%)	Revenue in tranche (£m)	Retention for tranche (£m)
1	0	150	8	150	12.0
2	150	300	7	150	10.5
3	300	450	6	76	4.6
4	450	unlimited	5	0	0.0
Total				376	27.1

Gross Sales Retention: Scratchcards

Tranche	Lower bound (£m)	Upper bound (£m)	Retention rate (%)	Revenue in tranche (£m)	Retention for tranche (£m)
1	0	250	3	250	7.5
2	250	750	2.5	500	12.5
3	750	1,000	2	85	1.7
4	1,000	unlimited	1.5	0	0.0
Total				835	21.7

Gross Sales Retention: Interactive instant win games

Tranche	Lower bound (£m)	Upper bound (£m)	Retention rate (%)	Revenue in tranche (£m)	Retention for tranche (£m)
1	0	50	8	50	4.0
2	50	100	7	50	3.5
3	100	500	6	25	1.5
4	500	unlimited	5	0	0.0
Total				125	9.0

E.4. Step 2: Calculating Net Sales

Net sales for each type of game are then calculated by deducting prize payments, duty and the Gross Sales Retention, as follows.

Calculating Net Sales

£ million	Draw-based games distributed through retailers	Draw-based games not distributed through retailers	Scratchcards	Interactive instant win games
Gross sales	4,230.0	376.0	835.0	125.0
less prize payments (i.e. gross sales x prize payout ratio)	-1903.5	-169.2	-501.0	-81.3
less duty (i.e. gross sales x 12%)	-507.6	-45.1	-100.2	-15.0
less retailer commission (i.e. gross sales x 5%)	-211.5	n/a	-41.8	n/a
less gross sales retention (from above)	-64.8	-27.1	-21.7	-9.0
Net sales	1542.6	134.6	170.4	19.8

E.5. Step 3: Calculating the Net Sales Retention

The Net Sales Retention is then calculated as follows.

Net Sales Retention: Draw based games distributed through retailers

[1] Tranche	[2] Lower bound (£m)	[3] Upper bound (£m)	[4] Retention rate (%)	[5] Revenue in tranche (£m)	[6] Retention for tranche (£m)
1	0	250	60	250.0	150.0
2	250	750	3	500.0	15.0
3	750	1,000	4	250.0	10.0
4	1,000	unlimited	5	542.6	27.1
Total				1542.6	202.1

Notes:

Columns 1-4 are taken from the Licencee's bid, as described in the above tables.

Column 5 shows the (net) sales revenue that falls within each tranche.

Column 6 is column 4 x column 5.

Net Sales Retention: Draw based games not distributed through retailers

Tranche	Lower bound (£m)	Upper bound (£m)	Retention rate (%)	Revenue in tranche (£m)	Retention for tranche (£m)
1	0	75	2	75.0	1.5
2	75	100	3	25.0	0.8
3	100	125	4	25.0	1.0
4	125	unlimited	5	9.6	0.5
Total				134.6	3.7

Net Sales Retention: Scratchcards

Tranche	Lower bound (£m)	Upper bound (£m)	Retention rate (%)	Revenue in tranche (£m)	Retention for tranche (£m)
1	0	40	70	40.0	28.0
2	40	100	6	60.0	3.6
3	100	150	7	50.0	3.5
4	150	unlimited	8	20.4	1.6
Total				170.4	36.7

Net Sales Retention: Interactive instant win games

Tranche	Lower bound (£m)	Upper bound (£m)	Retention rate (%)	Revenue in tranche (£m)	Retention for tranche (£m)
1	0	10	10	10.0	1.0
2	10	25	12	9.8	1.2
3	25	50	15	0.0	0.0
4	50	unlimited	20	0.0	0.0
Total				19.8	2.2

E.6. Step 4: Calculating the Licensee's total retention and primary contribution to good causes

The Licensee's total retention is then calculated from the results set out above as follows:

Calculating the Licensee's total retention

£ million	Draw-based games distributed through retailers	Draw-based games not distributed through retailers	Scratchcards	Interactive instant win games	Total
Gross Sales Retention	64.8	27.1	21.7	9.0	122.6
Net Sales Retention	202.1	3.7	36.7	2.2	244.8
Total Retention	266.9	30.8	58.4	11.2	367.3

The primary contribution to good causes is simply the value of net sales that remains after deducting the Net Sales Retention.

Calculating the primary contribution to good causes

£ million	Draw-based games distributed through retailers	Draw-based games not distributed through retailers	Scratchcards	Interactive instant win games	Total
Net Sales	1,542.6	134.6	170.4	19.8	1,867.3
Less Net Sales Retention	-202.1	-3.7	-36.7	-2.2	-244.8
Total Retention	1,340.5	130.9	133.6	17.6	1,622.6

Appendix

Vetting forms

F

F. Vetting forms

F. Vetting forms

Bidders should contact the Commission for appropriate vetting forms. Bidders are referred to section 7.2 for specific details regarding the entities and individuals who must complete the relevant vetting forms.

Forms	To be completed by Individuals living in the UK		Individuals who live overseas	
	Directors, officers and key employees of: – the Bidder; or – Shareholders and other persons connected with the Bidder	Directors, officers and key employees (where relevant) of – Contractors and Subcontractors – Finance providers	Directors, officers and key employees of – the Bidder or – Shareholders and other persons connected with the Bidder	Directors, officers and key employees (where relevant) of – Contractors and Subcontractors – Finance providers
Vetting Form 1	Yes	No	Yes	No
Vetting Form 2	No	Yes	No	Yes
Disclosure Scotland Form	Yes	Yes	Yes, if the individual has lived in the UK	Yes, if the individual has lived in the UK
Security Questionnaire	Yes	No	Yes, if the individual has lived in the UK	No
Certificates of Good Conduct	Yes, if the individual has lived overseas for a period in excess of 3 months in the last 5 years	Yes, if the individual has lived overseas for a period in excess of 3 months in the last 5 years	Yes, for each country lived in	Yes, for each country lived in
Corporate declaration and waiver All companies				

Trust arrangements

Appendix

G

G. Trust arrangements

G.1. Overview of current prize payment security arrangements

The Commission has an overriding statutory duty (inter alia) to secure that the interests of every participant in the Lottery, and every lottery that forms part of it are protected. As part of its fulfilment of that duty, the Commission required the Current Operator to enter into a security trust arrangement with a fully independent corporate Trustee pursuant to condition 17 of the current licence. The document creating the security trust arrangements, the security trust deed, is comprehensive and contains inter alia the following provisions:

The Current Operator's primary obligation under the security trust deed is to pay prizes. The Current Operator covenants with the Trustee, for the benefit of the beneficiaries under the trust arrangements, that it will pay in full all secured obligations. These secured obligations comprise the present and future, actual and contingent obligations of the Current Operator, from time to time, owed (i) to prize winners (whether in cash or cash equivalent) and (ii) to the other beneficiaries, in each case determined in accordance with the regulations of each lottery game and the provisions of the security trust deed.

The "beneficiaries" are principally the prize winners, other players, (if a lottery game or draw has been cancelled), the NLDF, (in respect of certain amounts only), and the Trustee, (for its proper fees).

The obligations of the Current Operator to the Trustee, (on behalf of the beneficiaries), described above are secured. The security package is comprehensive and consists inter alia of fixed and floating charges over amounts standing to the credit of certain accounts operated by the Current Operator and security trusts declared in relation to amounts standing to the credit of certain other accounts identified as trust accounts and operated by the Trustee. The proceeds of ticket sales due from retailers to the Current Operator are assigned absolutely by way of first security to the Trustee. The ticket sales proceeds are required to be paid into a specified bank account charged in favour of the Trustee. To accommodate the relatively complex requirements for the operation of the various lotteries that constitute the Lottery, the Current Operator has needed to create a number of bank accounts (in order that funds can be segregated where required) and each of these accounts is made the subject of security in favour of the Trustee.

In addition to the accounts operated by the Current Operator briefly described above, there are also a number of trust accounts operated by the Trustee, i.e. the authorised signatories on these accounts are officers of the Trustee rather than officers of the Current Operator. The amounts standing to the credit of the various trust accounts are those amounts which represent current prize liabilities, (i.e. in respect of each lottery draw the prizes for which have not yet been paid out), unclaimed or unpaid prizes, those amounts paid by subscription or multi-draw players and various other such amounts. It is the Current Operator's obligation to ensure that the aggregate of all prize liabilities is accurately determined, (this is another function of the lottery software), and the appropriate amounts are credited to the relevant trust accounts. The trust accounts must always be fully funded, (and never overdrawn), and in a position to meet such prize liabilities. The requirement is that the aggregate prize liability is pre-funded, i.e. the Current Operator is obliged to pay an amount equal to the aggregate prize liability at any time into the trust accounts. Provided the Trustee is satisfied that the Current Operator has discharged the relevant prize liabilities, then the Current Operator is entitled to be reimbursed the appropriate amount from the trust accounts. This is a continuous process and the fund flows between the various accounts are complex and require careful monitoring. An independent monthly audit is carried out and regular checks made by the Commission.

In addition to the security created, (whether by way of declaration of trust or fixed or floating charge), over the retailer receivables and account balances described above, the Current Operator also creates security over all its other assets and undertaking in favour of the Trustee. This includes software, hardware, intellectual property and any other assets that the Current Operator uses in its business. It also charges its interests in the EuroMillions security trust arrangements (see below).

Just as the Current Operator declares a security trust in favour of the Trustee in respect of certain of the accounts operated by it, (as described above), so also the Trustee states that it holds all the assets and other property secured in its favour on trust for the beneficiaries identified above.

The security trust arrangements also provide for a reserve to be established. This is a substantial cash sum held by the Trustee as a reserve or contingency against a shortfall. In the event that the amounts standing to the credit of the various accounts were insufficient to discharge all of the Current Operator's obligations to prizewinners and other participants then the reserve fund will be made available to make up any shortfall.

The security trust deed contains detailed provisions governing establishment and use of the various trust and non-trust accounts. It specifies which amounts may flow into which account, at what time, and what information is required to be provided to the Trustee before authority can be obtained for the release of any funds back to the Current Operator. To ensure compliance with these restrictions the Current Operator and the Trustee enter into an agreement with the bank that operates all of these accounts, ("the account bank"), in which inter alia the account bank agrees that the accounts should only be operated in strict compliance with the various mandates for the trust and non-trust accounts, each of which is appended to the agreement with the account bank.

The security trust deed imposes on the Current Operator a number of ancillary obligations including the provision of comprehensive reports to both the Trustee and the Commission, (and to a limited extent the account bank), containing information about prize payments and other relevant matters. Further, the Current Operator is obliged to keep proper books of account and full and accurate records of all relevant information relating to the operation of the various lotteries and to provide such information to the Trustee on request.

The EuroMillions game has a parallel security trust structure to secure the obligations of national lottery operators in various jurisdictions to make payments to each other. The participating national lottery operators, (including the Current Operator), have entered into a framework agreement and a security trust deed, (the EuroMillions deed). The Trustee is also the trustee under the EuroMillions deed. The framework agreement requires, inter alia, the participating lottery operators to fund their own specific London based bank account, with a pre-determined amount. There is additionally an ongoing obligation to fund the account on a weekly basis with the relevant amount. The amounts standing to the credit of the account are to be applied solely to discharge each participating lottery operators' obligations to one another under the framework agreement in order that the liabilities they each owe to players of EuroMillions will be discharged in full.

Pursuant to the EuroMillions deed, the participating lottery operators each covenant with the Trustee that they will discharge their obligations under the framework agreement and create fixed charges over their rights and interests in each account in favour of the Trustee to secure such obligations. The Trustee holds this security on trust for each of them. Many of the provisions in the EuroMillions deed are similar to those contained in the UK security trust deed referred to above.

Information and Clarification Request Form

Appendix

H

H. Information and Clarification Request Form

Further clarification or further information requests must only be made in writing to:

Mark Harris

Chief Executive
National Lottery Commission
101 Wigmore Street
London W1U 1QU
Email competition@natlotcomm.gov.uk

Should a Bidder wish to submit a request for information or clarification, it should use this form. This form is also available on the Commission's website in Word format. Any clarification or information arising from such requests will be published under the competition section of the Commission's website, taking into account issues of confidentiality and commercial sensitivity as set out in section 4.5.3 of the ITA.

All requests will be acknowledged by the Commission as soon as practicable. The deadline for questions to the Commission is 5pm on 16 October 2006.

Contact details

Individual's name: _____

Company: _____

Address: _____

Telephone: _____

Email: _____

Representing: [Insert name of bidder, company or other party]

Does the party submitting this request believe that the matter being raised is of a confidential or commercially sensitive nature?

Yes / No (delete as appropriate)

Request for further information or clarification:

[Insert description below]

EuroMillions

Appendix

I

National Lottery Commission

101 Wigmore Street
London W1U 1QU

Email competition@natlotcomm.gov.uk

Fax +44 (0)20 7016 3401

www.natlotcomm.gov.uk