

DIRECTORS' REPORT

The Directors present their Report, together with the Audited Financial Statements of Camelot UK Lotteries Limited (the 'Company'), for the Year Ended 31 March 2023.

The Company is a private limited company, limited by shares, and is incorporated and domiciled in the United Kingdom. The address of the registered office is: Camelot UK Lotteries Limited, Tolpits Lane, Watford, Hertfordshire, United Kingdom, WD18 9RN.

Principal Activities

The principal activity of the Company is the operation of The National Lottery in a socially responsible manner for the benefit of a number of good cause areas: arts, education, environment, health, heritage, sport and community/charity (the 'Good Causes'). The establishment of The National Lottery was enabled by the passing of The National Lottery etc. Act 1993 (as amended). Camelot operates The National Lottery pursuant to an operating licence granted by its regulator, the Gambling Commission.

The third operating licence was granted on 1 February 2009 to run until 31 January 2019, with a possible extension for a period of up to five years. In the 2011/12 financial year, the National Lottery Commission (subsequently merged with the Gambling Commission) granted an extended licence through to 31 January 2023, a four-year extension. This had an impact on intangible assets and property, plant and equipment, as economic lives have been lengthened where they previously ran to the end of the original third operating licence on 31 January 2019.

In May 2020, the Gambling Commission formally notified the Company of an extension of the licence by an additional six months until 31 July 2023.

In December 2021, the Gambling Commission formally extended the licence by an additional six months until 31 January 2024. The Company expects to pursue this principal activity until the end of the current third licence.

In March 2022, the Gambling Commission named Allwyn Entertainment Limited as the Preferred Applicant to operate The National Lottery for the fourth National Lottery licence and, in September 2022, it formally awarded the licence to Allwyn

Entertainment Limited. Camelot is committed to supporting a smooth transition and has been working hard to fulfil its responsibilities to make this happen. This has included activities as the outgoing licensee, subject to the obligations under the third licence and those of the transition Cooperation Agreement.

In February 2023, the Company was acquired by Allwyn UK Holding B Ltd, a subsidiary of the wider Allwyn group.

The Company's performance and outlook are discussed in the Strategic Report set out on pages 146 to 161 as permitted under s414C(11).

Shareholdings

The following share structure was in place at the end of the year under review:

	Number of 'A' shares	Number of 'C' preference shares	Total % holding of shares
Allwyn UK Holding B Ltd	1,000	10	100%

Further details of the rights and obligations of each class of share are given in note 21 to the financial statements.

The Company's ultimate shareholder is Valea Foundation. The largest group of undertakings in which the results of the Company are consolidated is that headed by KKCG AG, whose registered office is Kapellgasse 21, 6004 Luzern, Switzerland. The consolidated financial statements of this group are not available to the public. The smallest group in which the results of the Company are consolidated is that of Allwyn International a.s., whose registered office is Evropská 866/71, 160 00 Prague 6, Czech Republic. The consolidated financial statements of this group are available to the public at www.allwynentertainment.com/investors/sazka-group-debt-investor-hub/financial-reports.

Directors

The names of the Directors who served during the year and up to the date of signing the financial statements were:

Chair

Sir Keith Mills GBE DL (appointed 5 February 2023)

Sir Hugh Robertson KCMG PC DL (resigned 5 February 2023)

Executive Directors

Clare Swindell

Neil Brocklehurst (appointed 5 February 2023)

Nigel Railton (resigned 5 February 2023)

Non-Executive Directors (officers of OTPP)

Nick Jansa (resigned 5 February 2023)

Jane Rowe (resigned 5 February 2023)

Non-Executive Directors (officers of Allwyn group entities)

Robert Chvátal (appointed 5 February 2023)

Katarína Kohlmayer (appointed 5 February 2023)

Kenneth Morton (appointed 5 February 2023)

Independent Non-Executive Directors

Lord Sebastian Coe CH KBE (appointed 5 February 2023)

Amanda Horton-Mastin (appointed 5 February 2023)

Jennelle Tilling

Robert Walker (resigned 5 February 2023)

David Kelly (resigned 5 February 2023)

Rob Rowley (resigned 5 February 2023)

Gill Whitehead (resigned 21 April 2022)

Alternate Directors

Ilya Kachko (alternate to Jane Rowe – resigned 5 February 2023)

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 Company also purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of itself and its Directors.

Activities pre-5 February were covered by a policy which expired at midnight on 4 February 2023, with a replacement policy put in place to cover activities post-transaction, which was incepted at 00.01 on 5 February 2023. The Company also established a run-off policy to cover the historic liabilities of the Company and its directors pre-transaction.

Going Concern

Management has prepared a detailed budget and cash flow forecast which considers the appropriateness of the basis of preparation of the financial statements, including the going concern assumption. This budget and cash flow forecast has been evaluated and reviewed in significant detail.

The wider macroeconomic climate continues to result in an increase to the credit and financial liquidity risk of the Company. Management has assessed the controls in place to minimise Camelot's exposure to this increased level of risk, which are set out in note 16, and considers them to be effective. This view has been supported by stress testing as described on the next page.

The Company's licence to operate The third National Lottery is due to expire on 31 January 2024. At this point, the Company will cease to trade and will transition the operation of The National Lottery to the incoming licensee, Allwyn Entertainment Limited. There are contractual arrangements in place to manage this transition, including facilitating the transfer of any continuing obligations and any required licensee assets to Allwyn. The third licence and contractual arrangements with suppliers also create a number of end-of-licence obligations.

DIRECTORS' REPORT (CONTINUED)

Going Concern (continued)

The Directors have considered the impact of all end-of-licence activity and contractual obligations on the budget and cash flow forecast. As a result, they have an expectation that the Company has adequate resources to meet its obligations as they fall due for at least one year from the date of the financial statements being signed. However, as the Company is ceasing to trade, these financial statements have been prepared on a basis other than going concern. Although an alternative basis has been applied, this has not necessitated any write down of assets nor the recognition of any additional liabilities as a result. More detail on the impact of preparing the financial statements on a basis other than going concern can be found in note 2.

Viability Assessment

Taking account of the Company's current position and principal risks, the Directors have assessed the prospects of the Company for the purposes of provision 31 of the UK Corporate Governance Code covering a period until 31 March 2024. The Company's current licence to operate The National Lottery expires on 31 January 2024. The 12-month assessment period covers until 31 March 2024, which includes the finalisation and settlement of cash flows relating to the end of the third licence, including the anticipated cash flows at the point of transfer to a new operator, and accounts for the various (albeit limited) obligations following expiry of the licence.

It is anticipated that the Company will therefore effectively cease operations by the end of the period under review, although the assessment of it remaining viable throughout that same period remains applicable.

There is some inherent uncertainty in planning for the next year, given the difficult macroeconomic environment and its impact on the Company's performance until the licence expiry.

However, due to the strong foundations that the Company, under its Executive Team, has put in place over recent years across The National Lottery's games, channels and brand – combined with its ability to adapt quickly – the Company's business model has proved to be strong and resilient.

The forecast reflects a resilient sales performance in line with underlying marketing support. Company profits and cash flows are forecast to be generated in line with sales performance.

The Annual Business Plan and Annual Budget for 2023/24 were approved by the Board in March 2023 for the final 10 months of the licence, and also include all cash flows relating to transferring continuing obligations to the fourth licence operator and all third licence commitments following the licence expiry.

The Company maintains a £45.4m committed Revolving Credit Facility (2022: £55m), which runs until 30 October 2023. The amount drawn down under this facility at 31 March 2023 was £nil (2022: £nil). Cash flow projections reflect that this facility will not be required and it serves only as an additional safeguard, in particular helping to categorically ensure that the Company maintains the minimum headroom required by the third licence. After 30 October 2023, as in the period until this time, there will be sufficient cash headroom and this safeguard is not expected to be required.

The Company is operating comfortably within the interest cover and gearing ratios set out in its Revolving Credit Facility and the Directors consider that this will continue over the term of that facility.

A number of sensitivities were run to stress test the cash flow forecast and, even in downside scenarios, the Company remains comfortably within its loan covenants, with sufficient liquidity to meet its liabilities as they fall due and the licence requirements for cash and/or facility headroom. The Company's covenants are based on Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) pre-IFRS 16, which would have to fall by over 88% (a decrease in sales of over £5.9bn) from their current level across the remainder of the licence for the Company to have liquidity issues and covenants to be breached. This is considered highly unlikely. The forecast also shows only insignificant net interest charges and, therefore, the interest cover covenant ratio is easily maintained.

Viability Assessment (continued)

The Board confirms that it carries out a robust assessment of the principal risks and uncertainties facing the Company, including those that could threaten its business model, future performance, solvency and liquidity.

The Board also monitors the Company's risk management and internal control systems. The assessment and monitoring is carried out on a rolling basis, with senior management reviewing and updating the Company's principal risk register quarterly, which is then reviewed by the ARSC at every meeting (the 'Committee'). The Committee is also informed of, and considers, all material risks and internal control systems issues (including, for example, any significant control failings).

Among the identified key risks are people, key supplier/partner relationships, the regulatory environment, management of healthy play, player engagement, macroeconomic environment, the retailer environment, digital channels, technology/systems and InfoSec/cyber. During the year, the Board reviewed management's detailed assessment of transition risks, and monitored the preparation and related activities within Camelot to meet its outgoing licensee responsibilities under transition. The risks are set out in more detail on pages 158 to 161.

The Company continues to invest heavily in safeguarding IT infrastructure, with the security of player information and funds being a key priority.

The Chair of the Committee reports the proceedings of the Committee to the full Board, and copies of minutes of the Committee are distributed to all members of the Board who are not Committee members. Revocation of the Company's licence to operate The National Lottery would clearly be catastrophic and the Company is very clearly focused on mitigating the risks of committing any licence breach which could form the basis of such revocation.

Taking into account the Company's performance, the existence of the Company's licence to operate The National Lottery until 31 January 2024, the existence of the business strategy, and the principal risks and uncertainties facing the Company, the Directors have a reasonable expectation that the Company will be able to continue in operation and

meet its liabilities as they fall due over to cover the complete period of the third licence to run The National Lottery, including obligations in a post-expiry period.

Corporate Governance

The Report on Corporate Governance is set out on pages 170 to 181.

Streamlined Energy and Carbon Reporting

The Company's streamlined energy and carbon reporting is set out in the "Environmental Impact" section on pages 120 to 121, and is included in this Directors' Report by cross-reference.

Research

To secure the long-term success of The National Lottery and to ensure continued sales growth alongside increasing returns to Good Causes, the Company has continued to spend on research during the year. The Company's spend totalled £4.3m in 2023 (2022: £4.4m), primarily in the area of brand and market research.

Employees

The Company places a high priority on ensuring that its employment policies respect the individual, and offer training, career and personal development opportunities regardless of racial or ethnic origin, gender, age, religion, nationality, disability, sexual orientation or marital status.

A continued key focus over the last year has been to encourage an inclusive working culture which values difference, and enables people to be themselves, participate fully and meet their full potential.

Full and fair consideration is given to the employment of all individuals and reasonable adjustments are made to accommodate the disabilities of Camelot employees, whether those disabilities arose before or during their employment with the Company.

DIRECTORS' REPORT (CONTINUED)

Employees (continued)

The Company's Employee Forum is sponsored by a member of the Executive Team and extends across all employees in Camelot. It continues to be consulted on all significant policy proposals and initiatives affecting employees and, in turn, gathers group-wide reactions to such proposals, as well as giving regular feedback on other employee matters.

The Company 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. The main reward mechanism for doing this is via a performance-related annual bonus scheme.

For 2022/23, bonuses will be paid on two key performance criteria – profitability and operational performance integrity – with a multiplier awarded based on performance against objectives. When reflecting on-target performance, these bonuses start from 5% of base salary, increasing for senior management. During the year, a retention scheme, approved by the Remuneration Committee, was launched to mitigate against the risk of loss of critical staff.

To support its people through the increased cost of living crisis, the Company also paid cost of living relief payments in 2022/23 to employees earning less than £50,000.

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

Employee Engagement

Camelot has a well-established structure for communicating and listening to its employees through a variety of channels, including Company-wide emails, webcasts, all-employee meetings, the Company's intranet site and regular engagement surveys. With hybrid ways of working now embedded, these channels have been adapted to be inclusive of employees regardless of their working location. They are also the medium through which the Company communicates economic and financial factors which impact its performance. The Company achieved upper quartile engagement scores in its surveys throughout the year.

During 2022/23, Camelot continued to:

- provide employees systematically with information on matters of concern to them, such as trading updates, commercial strategy and progress updates, as well as inviting representatives from organisations that have received National Lottery funding to share their stories to ensure employees are connected to the Company's purpose. There continues to be a regular cycle of Company-wide communication through 'All Together' briefings, Leadership Team briefings, the intranet and monthly leadership newsletters for cascade;
- consult employees as a whole and via the Employee Forum on a bi-monthly (and then bi-weekly) basis so that their views can be taken into account in making decisions which are likely to affect their interests, including the outcomes of employee surveys, input to people policies, input to the wellness strategy, input to the impact of any organisational change, and input into diversity and inclusion plans;
- encourage the involvement of employees in Camelot's performance through the all-employee annual bonus scheme, ensuring quarterly performance conversations take place with individuals, and regular briefings on trading performance and progress against the Annual Business Plan;

Employee Engagement (continued)

- provide a listening strategy through regular engagement surveys and conversations with the Employee Forum, and reviewing feedback from the Company's People Business Partners;
- achieve a common awareness on the part of all employees of the financial and economic factors affecting the performance of Camelot through 'All Together' sessions and monthly Leadership Team cascades, as well as local team cascades; and
- activate a diversity and inclusion and wellbeing strategy throughout the year, encouraging employees to be their best and be themselves at work.

Following the announcement of the departures of the previous Chairman, Chief Executive Officer and Executive Director, a Company-wide event was held to introduce the new Co-Chief Executive Officers (Co-CEOs). The Co-CEOs will continue to lead the quarterly 'All Together' sessions throughout the year, keeping the whole Company informed about business performance. Enabled by a leadership visibility plan, they continue to be accessible and visible to employees. Following the acquisition of the Company by Allwyn, the Allwyn Group Chief Executive Officer and Chief Financial Officer have also been introduced to the Company.

The Directors have visibility of the people priorities and initiatives for the year via the People section of the Annual Business Plan, which sets out specific initiatives relating to employees. In addition, employee engagement scores and feedback are shared annually, and employee engagement and performance are considered as part of the all-employee annual bonus scheme, which is approved by the Remuneration Committee. Any risks relating to employees also form part of the Principal Risk updates to the Board.

Business Relationships

In performing its duties, the Board gives due consideration to its key stakeholder groups as it ensures that the activities of the Company align with its strategic plan, as well as the Company's cultures and values.

In assessing its activities, the Board aims to act fairly, transparently and in the best interests of the Company over the long term, and assesses the impact of activities on the Company's business relationships and, in particular, with its regulator, industry bodies, distribution partners, retailer base and suppliers. The Company acknowledges that every decision the Board has made will not necessarily result in a positive outcome for all of its stakeholders.

As noted in the Chair's Statement and the Co-Chief Executive Officers' Review, the Board and Executive management have regular engagement with their counterparts at the Gambling Commission and with the National Lottery distribution partners which distribute Good Cause funding. Executive management has a regular programme of engagement across the retailer base (from large multiple retailers through to independent, owner-managed businesses), which is monitored and assessed by the Board through its regular review of the Annual Business Plan.

DIRECTORS' REPORT (CONTINUED)

Suppliers

Suppliers are critical to the success of the Company and, for all of the major suppliers, there is a dedicated Camelot relationship manager. They work closely with the supplier to ensure not only the delivery of their product/service, but that there is a strong working relationship with regular dialogue that allows both parties to operate fairly and transparently with each other.

The Company's policy is to pay all fully-approved supplier invoices within 30 days after the end of the month in which the invoice is received (or 30 days from the date of invoice for small suppliers with 50 or fewer employees). During the year, Camelot paid 93% (2022: 92%) of its supplier invoices in line with the agreed terms and, on average for the year, invoices are being paid within 27 days (2022: 27 days) from date of receipt. The Company's latest figures show that only 1% (2022: 1%) of supplier invoices are paid in excess of 60 days, with 71% (2022: 76%) being paid in 30 days or less.

Camelot's payment practice and performance are made publicly available, and processes are in place to improve these metrics. In April 2021, the Company became a signatory to the Prompt Payment Code – the UK's voluntary code of conduct that sets the standard for best practice with regards to payments from large companies to smaller ones.

Financial Risk Management

The Company has a clear and specific investment policy which is followed for all cash deposits placed to mitigate against short and long-term cash flow risk.

The Company continually monitors its banking facilities, as well as regularly forecasting and reviewing its cash flow requirements. For the next financial year, the cash flow forecasts anticipate surplus cash levels, that the Revolving Credit Facility will remain undrawn and that sufficient headroom will be maintained such that all liabilities are capable of being met as they fall due.

In addition, Camelot has an established process, set out in The National Lottery Retailer Agreement, which ensures exposure to retailer bad debt is minimised, as detailed in note 16. Camelot is, therefore, confident that it has appropriately mitigated the additional credit and financial risks linked to its retailer footprint.

The Company is exposed to certain levels of credit, interest rate, foreign exchange and liquidity risks that arise in the normal course of business. Details of these risks are disclosed in note 16.

Related Party Transactions

During the current financial year, the Company has, in the ordinary course of its business, had transactions of significance with its previous parent company and fellow UK group entities. Details of related party transactions are given in note 27 to the financial statements.

Independent Auditors

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

Dividends

As detailed in note 8, total dividends paid in the year under review were £102.3m (2022: £81.6m), of which £102.3m (2022: £81.6m) was paid to the Company's previous parent company, Premier Lotteries UK Limited, during the year and £7,000 to Fourmoront Corporation (2022: £7,000). The Company does not recommend payment of a final dividend.

Donations

During the year, no political donations were made (2022: £nil).

Post-Balance Sheet Events

Refer to note 29 to the financial statements for Post-Balance Sheet Events disclosures.

Statement of Directors' Responsibilities in Respect of the Financial Statements

The Directors are responsible for preparing the Annual Report and Accounts in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the financial statements in accordance with UK-adopted international accounting standards. The Company has also prepared the financial statements in accordance with International Financial Reporting Standards (IFRS) adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Under company law, 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 Company, and of the profit or loss of the Company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards and IFRS adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for safeguarding the assets of the Company, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also 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 enable them to ensure that the financial statements comply with the Companies Act 2006.

In addition, 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.

Directors' Confirmations

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all of the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.



On behalf of the Board
Sir Keith Mills GBE DL
 Chair
 22 June 2023