

REPORT ON CORPORATE GOVERNANCE

While not required by law, Camelot UK Lotteries Limited has undertaken, so far as it is practical having regard to its corporate structure, to comply with the principles of good governance and code of best practice as set out in 'The UK Corporate Governance Code' (the 'Code'), published by the Financial Reporting Council in July 2018, in line with its requirements under the third licence. The Board's commitment to business integrity, high ethical values, corporate responsibility and professionalism in all of its activities remains undiminished following the Company's transition from plc to limited company status in July 2010.

This report outlines the approach adopted in relation to the principles contained within the Code and provides an explanation of any current departure from the provisions of the Code.

Board of Directors

On 5 February 2023, Ontario Teachers' Pension Plan sold its interest in the Company to Allwyn UK Holding B Ltd, a member of the Allwyn group of companies. At that point, Sir Hugh Robertson KCMG PC DL, Nigel Railton, Robert Walker, Rob Rowley, David Kelly, Jane Rowe (and her alternate, Ilya Kachko) and Nick Jansa resigned from the Board, and Sir Keith Mills GBE DL, Neil Brocklehurst, Robert Chvátal, Katarína Kohlmayer, Kenneth Morton, Lord Sebastian Coe CH CBE and Amanda Horton-Mastin were appointed to the Board.

At 31 March 2023, the Board comprised nine members: the Chair (Sir Keith Mills GBE DL), three additional Independent Non-Executive Directors (Lord Sebastian Coe CH CBE, Amanda Horton-Mastin and Jennelle Tilling), three Shareholder-Nominated Non-Executive Directors (Robert Chvátal, Katarína Kohlmayer and Kenneth Morton) and two Executive Directors (the Co-Chief Executive Officers – Neil Brocklehurst and Clare Swindell). The Board is currently seeking an additional Independent Non-Executive Director.

There is a clear delineation of responsibility between the Chair and the Co-Chief Executive Officers, which is set out formally in a written description of the role of the Board and written descriptions for the Chair's and the Co-Chief Executive Officers' roles (and also for the roles of the Deputy Chair/Senior Independent Director and the Independent Non-Executive Directors).

The Chair leads the Board, ensuring that each Director, particularly each of the Non-Executive Directors, is able to make an effective contribution. He monitors, with assistance from the Company Secretary, the information distributed to the Board to ensure that it is sufficient, accurate, timely and clear. Board papers are sent to Directors in good time before Board meetings.

These cover key areas of the Company's affairs, including overall strategy, key commercial partnerships, approval of budgets, major capital expenditure programmes, significant transactions and financing issues. The Board approves all major capital and revenue expenditure over specified amounts, which vary depending on the nature of the expenditure.

The Co-Chief Executive Officers maintain day-to-day management responsibility for the Company's operations, implementing Company strategies and policies agreed by the Board.

Regular Board meetings were held during the year under review. Board meetings follow a formal agenda which includes regular reports from the Co-Chief Executive Officers, matters for which the Board's approval is required (including, in particular, the Company's Annual Business Plan and Annual Budget), deep dives into business topics of importance and other matters for the Board's information. The Strategic Report for the year can be found on pages 146 to 161.

Board of Directors (continued)

At the beginning and end of each Board meeting, the Chair usually meets with the Non-Executive Directors for a private session in the absence of the Co-Chief Executive Officers and other senior management. At the end of each meeting, a further private session is usually held with the Co-Chief Executive Officers without other senior management.

The written description of the role of the Board sets out matters specifically reserved for decision by the Board, but all Board members are free to raise other issues at Board meetings. Where Directors have concerns that cannot be resolved about the running of the Company, or a proposed action, these are recorded in the Board minutes. Upon resignation, a Non-Executive Director with any such concerns is able to circulate them to the Board via a written statement to the Chair.

During the year, a number of additional Board meetings were held as a result of the Company's activity in relation to the outcome of the fourth licence competition and the sale of the Company.

The Board has delegated certain functions to committees, as set out below. However, the Board takes direct responsibility for the review and monitoring of key areas, such as risk management. All Directors have access to the Company Secretary, who is responsible for ensuring that Board procedures are followed.

There is a procedure in place enabling any Director, in the furtherance of their duties, to seek independent professional advice at the Company's expense.

In addition to their attendance at meetings of the Board and of those committees of which they are members, all Directors are encouraged to attend meetings of those committees of which they are not members. Attendance of Directors at Board and Committee meetings during the year was as follows:

	Board (9 meetings) Number attended while a Director	Audit, Risk and Security Committee (4 meetings) Number attended while a Director	Remuneration Committee (3 meetings) Number attended while a Director	Nominations Committee (1 meeting) Number attended while a Director	Transition and Reserve Applicant Committee (4 meetings) Number attended while a Director
Neil Brocklehurst	2/2	¹ (1/1)	¹ (1/1)	¹ (0/0)	-
Robert Chvátal	2/2	¹ (1/1)	¹ (1/1)	¹ (0/0)	-
Lord Coe CH KBE	0/2	¹ (0/1)	¹ (0/1)	¹ (0/0)	-
Amanda Horton-Mastin	2/2	¹ (1/1)	¹ (1/1)	¹ (0/0)	-
Nick Jansa	7/7	¹ (2/3)	¹ (2/2)	¹ (1/1)	2/4
David Kelly	5/5	2/2	¹ (0/2)	¹ (0/1)	4/4
Katarína Kohlmayer	2/2	¹ (1/1)	1/1	¹ (0/0)	-
Sir Keith Mills GBE DL	2/2	¹ (1/1)	1/1	¹ (0/0)	-
Kenneth Morton	2/2	1/1	¹ (1/1)	¹ (0/0)	-
Nigel Railton	7/7	¹ (3/3)	¹ (2/2)	¹ (1/1)	4/4
Sir Hugh Robertson KCMG PC DL	7/7	¹ (3/3)	¹ (2/2)	1/1	4/4
Jane Rowe	7/7 ²	2/3 ²	2/2 ²	1/1 ²	¹ (2/4)
Rob Rowley	6/7	3/3	¹ (2/2)	¹ (1/1)	¹ (2/4)
Clare Swindell	9/9	¹ (4/4)	¹ (3/3)	¹ (1/1)	4/4
Jennelle Tilling	9/9	¹ (3/3) and 1/1	¹ (2/3)	0/1	¹ (2/4)
Robert Walker	7/7	3/3	2/2	¹ (1/1)	¹ (2/4)
Gill Whitehead	0/1	0/0	¹ (0/0)	¹ (0/0)	¹ (0/0)

REPORT ON CORPORATE GOVERNANCE (CONTINUED)

Board of Directors (continued)

The table shows the number of meetings attended by each Director as against the number of meetings he/she was entitled to attend while a Director.

¹ Indicates that the named individual is not appointed to the Committee, followed (in brackets) by the number of meetings attended as against the number of meetings that individual was entitled to attend while a Director.

² Nick Jansa attended the following meetings as Jane Rowe's alternate when she was unable to attend: (1) two Board meetings, (2) one Audit, Risk and Security Committee meeting, (3) one Remuneration Committee meeting and (4) one Nominations Committee meeting.

Under the terms of the third licence, all Directors have to be security-vetted before they can be formally appointed to the Board, unless the Gambling Commission has issued a temporary waiver of that requirement in individual cases. Pending this clearance or waiver, those to be appointed are permitted to attend Board and Committee meetings as observers.

During the year under review, the Board delegated its authority to the following Committees:

Audit, Risk and Security Committee

Chair: **Rob Rowley** (resigned 5 February 2023), **Kenneth Morton** (appointed 9 March 2023)

Members: **Rob Rowley** (resigned 5 February 2023), **Jane Rowe** (resigned 5 February 2023), **Robert Walker** (resigned 5 February 2023), **Gill Whitehead** (resigned 21 April 2022), **David Kelly** (appointed 23 June 2022, resigned 5 February 2023), **Kenneth Morton** (appointed 9 March 2023) and **Jennelle Tilling** (appointed 9 March 2023)

Usual Attendees

The Chief Executive Officer (since 5 February 2023, the Co-Chief Executive Officers) and other functional managers, including the Chief Financial Officer (Clare Swindell, also Co-Chief Executive Officer), the Director of Finance, the Head of Assurance – Risk & Compliance, the Head of Internal Audit, other functional heads and representatives of the Company's external auditors and shareholders. The composition and independence of the Board is discussed on page 170.

The Committee met four times in the year under review.

Its duties are as follows:

Audit

The Committee is responsible for ensuring that the system and quality of internal control within the Company, and, in particular, of financial reporting, are to the highest standards, and for ensuring that the interests of the Company's shareholders are safeguarded. The Committee is also responsible for considering how the Company should apply its financial reporting and internal control principles, for maintaining an appropriate relationship with the Company's external auditors (including assessing their independence), and ensuring the independence and effectiveness of the internal audit function.

It also reviews the Company's financial and accounting policies, any formal announcements relating to its financial performance, and final financial statements and Annual Report (including significant financial reporting judgements contained in them) prior to their submission to the Board, together with management reports on accounting and internal control matters.

Where requested by the Board, the Committee provides advice on whether the final financial statements, taken as a whole, are fair, balanced and understandable, and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Audit (continued)

It also reviews the appointment and terms of reference of the external auditors, and their management representation letter, and considers any other matters raised by the external auditors. In respect of non-audit services, the Committee reviews the objectivity of the external auditors by reviewing the scope of work for such services to ensure that their independence is safeguarded. It monitors the effectiveness of the Company's financial controls, and internal control and risk management systems. At least once a year, the Committee meets separately with the external auditors and the Head of Internal Audit, without any Executive Board members present. The Committee is also responsible for reporting to the Board on how it has discharged its responsibilities.

PricewaterhouseCoopers LLP (PwC) have been the Company's external auditors since 1993.

The Committee considers the relationship with its external auditors is working well and remains satisfied with its effectiveness (taking into consideration relevant UK professional and regulatory requirements). The external audit partner is rotated regularly and the current partner is in his sixth year. The external auditors attended all four Committee meetings in the financial year ended 31 March 2023, and the Committee assesses their effectiveness through this regular interaction.

Reporting of Significant Issues

As part of its work, the Committee focused on the following significant accounting areas in relation to the financial statements:

Revenue Recognition

Camelot's revenue recognition policy, set out in note 2(d) to the financial statements, is reviewed annually, to ensure it properly reflects the nature of transactions and is in accordance with accounting standards. Internal controls are designed to mitigate against revenue being recorded in the incorrect period. PwC performed detailed audit procedures on revenue recognition and the

relevant internal controls, and reported its findings to the Committee. Having reviewed the policy and considered the controls in place, the Committee has concluded that the timing of revenue recognition continues to be in line with International Financial Reporting Standards (IFRS) requirements.

Provisions

In accounting for provisions, judgement is required to assess the probability of outcome, maturity and level of risk. Judgement and estimation are required in the provision methodology and, for certain provisions, consideration of external information on which to base the provision. Details of the accounting policy relating to provisions are set out in note 2(s) to the financial statements.

Provisions made, and the basis on which they have been calculated, are disclosed in note 20. The Committee has confirmed the appropriateness of accounting policies relating to provisions and the quantum of provisions held at 31 March 2023, in particular those relating to long-term incentive plans and end of licence obligations. PwC performed detailed audit procedures on provisions, including the appropriateness of any assumptions and reliance on external information, and reported its findings to the Committee.

Capitalisation and Impairment of Assets

The Company continues to make investments in capital assets. The Committee has reviewed the appropriateness of capitalisation and impairment decisions adopted by management, and concluded that current processes are sufficient to ensure capitalised assets are correctly captured, valued and reported. Assets are capitalised and impaired in accordance with IFRS, as set out in the accounting policies disclosed in note 2 to the financial statements.

Licence Compliance

The Committee has also continued to focus on, and monitor the controls surrounding, compliance with the operating licence granted by the Gambling Commission and the financial implications of licence non-compliance.

REPORT ON CORPORATE GOVERNANCE (CONTINUED)

Risk

The Committee assists the Board in fulfilling its responsibilities for managing the risk associated with the business and markets within which the Company operates, overseeing the internal control framework, and determining the nature and extent of the principal risks the Company is willing to take in order to achieve its long-term strategic objectives. The two core responsibilities of the Committee in respect of risk are to ensure an appropriate framework is provided for managing risks throughout the Company, and to provide an appropriate forum through which the detailed status of risk management is reported to the Board.

During the year, the Committee spent time discussing the risks associated with the various ongoing major programmes, as well as other principal risks including the threat of cyber attack, technology, people and the retailer environment. The Committee also reviewed management's detailed assessment of the risks for the operation of the third licence around transition to the fourth licence in the Company's role as outgoing licensee.

The Committee discusses significant issues with management, both independently and with external auditors.

Security

The Committee is responsible for approving and ensuring adherence to a set of security policies for the implementation and operation of The National Lottery. The Committee is regularly informed of any potential security issues within the Company (including physical, logical and personnel security, and disaster planning). It is also responsible for overseeing the activities undertaken by the Company's Chief Information Officer in respect of security, and for reviewing any major security breaches that are brought to the attention of the Chair of the Committee immediately after they are identified. The Committee also has a standing agenda item relating to data protection matters presented by the Data Protection Officer.

Remuneration Committee

Chair: **Jane Rowe** (resigned 5 February 2023), **Katarína Kohlmayer** (appointed 23 February 2023)

Members: **Jane Rowe** (resigned 5 February 2023), **Robert Walker** (resigned 5 February 2023), **Katarína Kohlmayer** (appointed 23 February 2023) and Sir **Keith Mills GBE DL** (appointed 23 February 2023)

The Committee is responsible for establishing a formal and transparent procedure for developing the framework and broad policy for determining the remuneration of the Company's Co-Chief Executive Officers, Independent Non-Executive Directors and employees in management with a senior role in the Company, using both Willis Towers Watson and external market data. In determining those matters, the Committee is required to review workforce remuneration and related policies, and the alignment of incentives and rewards with culture, and take these, and all other factors which the Committee deems necessary (including different incentives needed in different scenarios), into account.

The Committee is also required to address the need for remuneration arrangements to be clear, simple, proportionate, predictable, aligned to culture, and appropriate in the light of reputational and other risks. The objectives of the broad policy are required to ensure a range of outcomes, including supporting the strategy and promoting the long-term sustainable success of the Company, ensuring remuneration is aligned to the Company's purpose, values and long-term strategy, enabling the use of discretion to override formulaic outcomes, and avoiding rewarding poor performance. The Committee met three times during the year.

The Committee, which includes representation by the shareholder, reviewed and approved the annual bonus arrangements for the financial year ended 31 March 2023, with Executive Directors' and senior managers' performance metrics based on profitability and operational integrity – an approach which is consistent and aligned with all employees. Through the inclusion of performance metrics, the Committee ensures that reputational and other risks arising from a target-based incentive plan are mitigated.

Remuneration Committee

(continued)

The Employee Forum receives communication and updates on the remuneration arrangements in place for employees each year, and the wider Leadership Team is briefed annually on the details of the scheme. This includes how remuneration aligns with the wider Company pay policy. Bonus awards are capped with a maximum payout, and the scheme has provisions to reduce bonus awards for any under-performance.

In approving arrangements, the Committee reviewed and considered total remuneration for the Executive Directors and senior management. The gender pay gap data was considered by the Committee as part of the regular agenda and progress tracked. The Committee also reviewed retention arrangements this year and the cost of living payments to certain employees.

Willis Towers Watson continues as an advisor to the Company and, in the course of the year, advised it in relation to all staff remuneration (including Co-Chief Executive Officers and Executive Directors) and provided ad hoc support to the HR Team. Willis Towers Watson Health & Benefits (part of Willis Towers Watson) acts as the Company's brokers for Life Assurance, PHI and PMI benefits, and dental scheme, and is also the provider of the Company's occupational health/managed care service (the support link between PHI and PMI claims).

Nominations Committee

Chair: **Sir Hugh Robertson KCMG PC DL** (resigned 5 February 2023), **Robert Chvátal** (appointed 9 March 2023)

Members: **Sir Hugh Robertson KCMG PC DL** (resigned 5 February 2023), **Jane Rowe** (resigned 5 February 2023), **Jennelle Tilling**, **Robert Chvátal** (appointed 9 March 2023) and **Amanda Horton-Mastin** (appointed 9 March 2023)

Camelot recognises the vital role that Non-Executive Directors play in ensuring high governance standards.

The Committee is responsible for adopting a formal, rigorous and transparent procedure for the recommendation of new Directors, and for considering and recommending suitable candidates for appointment by the C preference

shareholder who have the time to commit to the Company, are of appropriate experience, age, qualifications, background and reputation, will provide constructive challenge, strategic guidance and specialist advice, and will hold management to account.

The Committee is required to consider candidates from a wide range of backgrounds, paying due regard to the Board's diversity and inclusion policy. This policy recognises the importance of diversity and inclusion; records the Company's commitment to promoting equality of opportunity and inclusion within its organisation, as well as for its players, retailers and wider society; and also confirms the Company's commitment to have due regard to the benefits of diversity and inclusion on the Board, and the making of appointments based on merit, measured against objective criteria and the aptitude, skills and ability individuals can bring to the business. The Committee comprises a majority of Independent Non-Executive Directors, under the chairmanship (since 9 March 2023) of a Shareholder-Nominated Non-Executive Director.

During the financial year ended 31 March 2023, the Committee met only once, in the light of the unusual circumstances prevailing throughout the year (including the Company's legal challenge in respect of the fourth licence competition and the sale of the Company to the Allwyn group). Its work centred on Board and senior management succession planning, which are standing items on the Committee's meeting agenda. The members of the Board appointed on 9 March 2023 were identified by Allwyn in its capacity of sole incoming shareholder during the period leading up to completion of the sale of the Company, and so the Committee was not required to be involved in that process.

Consideration of Board succession provides clarity to the Board as to when new appointments to the Board will need to be addressed. When considering such appointments, typically the Committee consults with shareholder representatives, the Co-Chief Executive Officers and other members of the Board (including, where relevant, the results of the most recent review of the effectiveness of the Board and its Committees), and appoints an external agency in relation to the search.

REPORT ON CORPORATE GOVERNANCE (CONTINUED)

Nominations Committee (continued)

At its meeting this year, the Committee reviewed and monitored the pipeline of individuals who have been identified as potential emergency and/or permanent successors to all members of the Executive Team and other senior management roles. The Committee's focus on Board and senior management succession planning signals the Board's recognition of, and commitment to, the importance of the development of a diverse and inclusive pipeline of succession to the Board and Camelot's senior management team.

The Committee's work at the meeting also included diversity reporting. The Board's diversity and inclusion policy recognises the importance of diversity and inclusion, and aims to attract, engage and retain a workforce as diverse as Camelot's players, customers and the communities that Camelot's work supports. It seeks to encourage an inclusive working culture and environment which values difference, enables people to be themselves, and supports Camelot's ambition to have a highly engaged and high-performing team.

It also commits the Board to ensuring that Camelot values and respects people of all cultures, nationalities, races and religions, regardless of characteristics such as gender, gender identity and/or expression, age, disability, marital or parental status, or sexual orientation. In addition, it continues to recognise the benefit of diversity on the Board and in Camelot's senior Leadership Team, and the importance of creating an inclusive environment. It states that all Board appointments – while being based on merit, measurement against objective criteria and the aptitude, skills and ability individuals can bring to the business – will also give regard to diversity and inclusion.

The Board's policy is implemented, in particular, by virtue of its being taken into account by the Nominations Committee in its work in relation to Board and senior management succession planning; by ensuring that Camelot's more detailed Company policy is consistent with the Board's policy; and by monitoring implementation of related activities in Camelot during the year.

As at:	Female Board Members
31 March 2023	44% <small>(four of the nine members)</small>
31 March 2022	44% <small>(four of nine)</small>
24 June 2021	44% <small>(four of nine)</small>
25 June 2020	50% <small>(four of eight)</small>
27 June 2019	38% <small>(three of eight)</small>
1 April 2018	14% <small>(one of seven)</small>
As at:	Female Executive Team Members
31 March 2023	33% <small>(four of the 12 members)</small>
31 March 2022	25% <small>(three of 12)</small>
24 June 2021	25% <small>(three of 12)</small>
25 June 2020	25% <small>(three of 12)</small>
27 June 2019	27% <small>(three of 11)</small>
1 April 2018	23% <small>(three of 13)</small>
As at:	Senior Management Gender Balance
<small>(ie the Executive Team and their direct reports from grades 3 to 5)</small>	
31 March 2023	54%/46% <small>male/female</small>
31 March 2022	58%/42% <small>male/female</small>
5 May 2021	67%/33% <small>male/female</small>
11 May 2020	64%/36% <small>male/female</small>
30 May 2019	64%/36% <small>male/female</small>
1 April 2018	64%/36% <small>male/female</small>
As at:	Employees
31 March 2023	51%/49% <small>male/female</small>
31 March 2022	50%/50% <small>male/female</small>
24 June 2021	51%/49% <small>male/female</small>

Transition and Reserve Applicant Committee

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

Deputy Chair: **Nigel Railton** (resigned 5 February 2023)

Members: **Nick Jansa** (resigned 5 February 2023), **David Kelly** (resigned 5 February 2023),

Nigel Railton (resigned 5 February 2023),

Sir Hugh Robertson KCMG PC DL (resigned 5 February 2023), **Clare Swindell**

During the financial year ended 31 March 2023, the Board established an additional Committee of the Board to supervise the Company's consideration of, preparation for and conduct of the Company's participation as outgoing licensee in the transition to the fourth licence (and, for a period, as reserve applicant in respect of the fourth licence). Given the confidential nature of the fourth licence process and transition, no further information is provided here. On 9 March 2023, the Board resolved to disband the Committee, the direct supervision of those matters reverting to the Board.

Board Effectiveness Review

An externally facilitated review of the Board and its Committees was undertaken in February and March 2022. The review was facilitated by Dr Tracy Long of Boardroom Review Limited. An internally facilitated review was due to be undertaken in February and March 2023, but, in the circumstances, was neither feasible nor appropriate given the replacement of most of the Board on 5 February 2023 on completion of the sale of the Company to Allwyn.

However, the Board and its Committees continued to meet regularly and effectively throughout the financial year ended 31 March 2023. Allwyn gave due consideration to the composition, diversity and effectiveness of the Board when making the appointments to the Board on 5 February 2023, and the Chair will continue to be mindful throughout the remainder of the third licence of his key role in ensuring the Board's effectiveness.

Independent Non-Executive Directors

The Independent Non-Executive Directors are independent of both management and the shareholder, and are initially appointed for a three-year term. Thereafter, their appointment may be extended for further terms, subject to mutual agreement and shareholder approval. The Independent Non-Executive Directors have full access to management, and are encouraged to stay fully abreast of the Company's business through site visits and meetings with senior management.

Appropriate induction briefings are available to all Directors on appointment, and subsequent training is offered, as necessary, taking into account qualifications and experience.

Relations with Shareholders

The Group's ultimate parent undertaking and controlling party is Valea Foundation, which also owns the Allwyn group of companies (note 1). The Company maintains close links with Allwyn, which has representation on the Board, and also has direct lines of access to the Chair, the Co-Chief Executive Officers, the Independent Non-Executive Directors and the Company Secretary.

Licence Compliance

The Directors are responsible for establishing an adequate system of control so that assurance is provided over compliance with the provisions of the third operating licence and Section 6 game licences, and any other provisions imposed by or under any statute which relate to the running of The National Lottery or the promotion of any constituent lottery. The system of internal control includes the reporting of regulatory matters to the Audit, Risk and Security Committee by the Head of Internal Audit and Director of Regulatory Affairs. Internal audits and reviews performed by the Internal Audit function also provide assurance.

Risk Management and Internal Control

Managing Risks

Under its National Lottery operating licence, Camelot is required to establish and maintain an effective system of corporate governance, internal control and risk management.

Camelot operates a 'three lines of defence' model, with the first line of defence being functions that own and manage risks, Risk & Insurance and Compliance functions acting as the second line of defence, and Internal Audit acting as the third line.

The purpose of the Risk & Insurance function is to ensure that the Company maintains an enterprise risk management (ERM) process that demonstrates the effective risk management and effective corporate governance processes and compliance expected under its licensing requirements. In addition, it ensures that there are adequate insurances in place to protect the assets of the business. The key outputs from the Risk & Insurance function are the principal risk registers and the functional risk registers to give top-down and bottom-up views of risk.

The Compliance function is responsible for documenting and assessing the effectiveness of compliance activities, as well as conducting internal checks to support an effective control environment across the business. During the year, Camelot continued to embed the Self-Assessment programme.

REPORT ON CORPORATE GOVERNANCE (CONTINUED)

Risk Management and Internal Control (continued)

Managing Risks (continued)

Within Camelot, the review of risk and internal controls is an integrated, embedded management process, and is designed to support management's decision-making.

The purpose of the Internal Audit function is to provide independent and objective assurance by assessing the effectiveness and adequacy of Camelot's internal controls and risk management. This is achieved through a programme of reviews based on a continuous assessment of business risks and controls across Camelot.

Roles and Responsibilities

Board of Directors

The Board has carried out a robust assessment of Camelot's emerging and principal risks during 2022/23, by means of the governance described below.

The Board provides oversight of the ERM process to ensure that it is used to help inform, develop and achieve the strategic objectives of the Company.

All Board members are invited to attend all meetings of the Audit, Risk and Security Committee, at which all key risks are reviewed, together with how they are being controlled and monitored by management.

Audit, Risk and Security Committee (ARSC)

The ARSC reviews management's identification of the significant risks (principal risks) of the Company in accordance with the ERM policy, and the controls in place and being developed to mitigate exposures in line with the agreed risk appetite and tolerance.

The ARSC considers the Company's key risk profile, and the actions taken and controls in place or planned to mitigate exposures. If required, the Committee can request deep dives to be performed into significant risks to ensure that management focus and mitigations remain appropriate.

Compliance and Risk Committee (CRC)

The CRC is a sub-committee of the Executive Committee, where the risk appetite and tolerance statement is proposed, the overall risk position of the Company is considered, the effectiveness of the current ERM process is assessed and changes are driven forward. The CRC meets regularly, and prior to each ARSC meeting, to review and assess the Company's key risks for communication to the Executive and then ARSC. The Committee also provides a forum for sharing strategic decisions that could impact risk management, and for improving the overall Company control environment.

Risk Owners

Risk Owners are typically the senior managers responsible for the Company's functions/operational teams and are responsible for ensuring that the ERM process is followed.

Risk Management Process

The ERM process and systems of internal control are designed to manage, rather than eliminate, risk and to ensure that the Company's strategic objectives are achieved. The high level of risk awareness in Camelot, together with risk reporting to the Board, allows the Board to ensure that focused steps are taken to address risk exposures.

The ERM process applies the principle of identifying risk from a strategic, operational and external perspective (top-down), along with an understanding of the department risk registers (bottom-up). This approach is summarised in the five steps below. These steps require input from all departments within the Company, and facilitate management's understanding of the risks facing their departments, and managing these risks within the risk appetite/tolerance established by senior management and agreed by the Board and ARSC.

1. Risk Identification

Risks are identified by each function, classifying risks into eight main risk categories under a common taxonomy (see Risk Categories and Risk Appetite section). Each identified risk is recorded in a risk mitigation plan, and assessed for impact on the organisation and likelihood of occurrence.

Risk Management and Internal Control (continued)

Risk Management Process (continued)

2. Risk Assessment and Measurement

Risk assessment includes consideration of (a) the likelihood of the risk and (b) the impact of the risk occurring on the achievement of Camelot's objectives within a specified timeframe.

3. Risk Response and Action

For each identified risk, the business unit/function should establish a 'response' to manage the risk based upon the agreed risk appetite and tolerance for that risk category.

4. Monitoring

Risk and response activities should be monitored by the Risk Owner on a regular basis to ensure that their risks remain within tolerance.

5. Reporting

The Board, ARSC and CRC require the results of the ERM process to be periodically reported to them in their oversight capacity, and to gain assurance that risks are being proactively managed (and mitigated) within the approved risk tolerance levels.

Risk Categories and Risk Appetite

All risks identified are allocated to one or more of the risk categories below:

- Strategic
- Financial
- Commercial
- Operations
- Security (including information security)
- People
- Legal and Regulatory
- Reputation and Brand

The Company's risk appetite, which has been set by the Board, clearly articulates the amount of acceptable risk within which the Company can operate. This risk appetite provides direction and boundaries for consistent, measured, risk-aware decision-making throughout the business, and guides the Company in taking the right level of risk. A scale of low to extreme illustrates the range of risk appetite, as well as risk tolerance, across each of the eight categories of risk. For example, the Company may take more risk in the pursuit of commercial objectives than it would with respect to legal or regulatory requirements.

Internal Control

There were no changes in the Company's internal control over financial reporting that occurred during the year that have materially affected, or are reasonably likely to materially affect, the Company's quality of financial reporting.

UK Corporate Governance Code

The Board of Camelot is committed to the principles of good governance set out in the UK Corporate Governance Code and has adopted those that are relevant to its circumstances.

In doing so, the Board has been mindful of the broad stakeholder responsibilities of the Company arising from the operation and promotion of The National Lottery, alongside its responsibility to its shareholder. More details of how Camelot consults with its stakeholders are set out in the "Doing Business Responsibly" section on pages 96 to 121 and in the section 172 statement on pages 154 to 157.

In adopting the principles and practice of the Code, the Board has taken account of the fact that the Company's principal (and following the sale to Allwyn, sole) shareholder is represented on the Board. Accordingly, the Board considers that many of the Code's provisions relating to a public company's responsibilities to protect shareholders' interests and to communicate to shareholders are not relevant to the Company, and it believes that robust governance has been maintained appropriately in the context of its ownership.

Those areas where the Board has chosen to depart from the provisions of the Code during the year are set out below.

Provision 3 states that "in addition to formal general meetings", the chair should seek regular engagement with major shareholders in order to understand their views on governance and performance against the strategy. The Company is effectively owned by one shareholder, which has representation on the Board and has determined that the Company will not hold an annual general meeting. The Gambling Commission has waived the requirement of Condition 14.2 of the third operating licence that the Company should comply with provision 3 of the Code.

REPORT ON CORPORATE GOVERNANCE (CONTINUED)

Risk Management and Internal Control (continued)

UK Corporate Governance Code (continued)

Provision 11 states that at least half the board, excluding the chair, should be non-executive directors whom the board considers to be independent. From 5 February 2023, excluding the Chair, only three of the remaining eight Directors are Independent Non-Executive Directors. With effect from 5 February 2023, the Gambling Commission has waived the requirement of Condition 14.2 of the third operating licence that the Company should comply with provision 11 of the Code. Steps are being taken to recruit an additional Independent Non-Executive Director to the Board.

In addition, the Company's articles of association are being amended so as to provide that each Non-Executive Director participating in a meeting will have two votes, and each Executive Director (being the current Co-Chief Executive Officers) will have one vote, so that, following appointment of the additional Independent Non-Executive Director, the independent Directors as a group will have a majority of votes (the independent Chair also having an additional casting vote in that capacity).

Provision 18 states that all Directors should be subject to annual election by shareholders. Because Camelot's C preference shareholders have the exclusive right to appoint or remove each of the Company's Directors, these provisions are not appropriate. The Gambling Commission has waived the requirement of Condition 14.2 of the third operating licence that the Company should comply with provision 18 of the Code.

Provision 21 states that there should be a formal and rigorous annual evaluation of the performance of the board, its committees, the chair and individual directors. An internally facilitated review was due to be undertaken in February and March 2023, but, in the circumstances, was neither feasible nor appropriate given the replacement of most of the Board on 5 February 2023 on completion of the sale of the Company to Allwyn. The Gambling Commission has waived the requirement of Condition 14.2 of the third operating licence that the Company should comply with provision 21 of the Code in relation to 2022/23.

Provision 30 requires a board to report in annual and half-yearly financial statements whether it considers it appropriate to adopt the going concern basis of accounting in preparing them, and identify any material uncertainties to the company's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements. Given the Company's existing reporting obligations, it being owned ultimately by a single shareholder and the high degree of oversight of its operations by the Gambling Commission, it is not appropriate for the Directors to report on a half-yearly basis. The Gambling Commission has waived the requirement of Condition 14.2 of the third operating licence that the Company should comply with provision 30 of the Code.

Risk Management and Internal Control (continued)

UK Corporate Governance Code (continued)

Provisions 32 and 24 relate to the composition of the Remuneration and Audit Committees respectively. The provisions set out that the Remuneration and Audit Committees should comprise Independent Non-Executive Directors.

- During 2022/23, until 5 February 2023 the Remuneration Committee comprised two Non-Executive Directors, one of whom was an employee of Ontario Teachers' Pension Plan and therefore was not deemed to be independent under the terms of the Code (though she was independent of management). A new Remuneration Committee was appointed on 23 February 2023, including a Non-Executive Director who is the CFO of a parent undertaking of the Company and a director of another such parent undertaking, and therefore is not deemed to be independent (though she is independent of management). Under the Company's Articles of Association, the right to appoint the members of the Remuneration Committee is reserved exclusively to the C preference shareholders and so the provision is not relevant to the Company.
- During 2022/23, until 5 February 2023 the Audit, Risk and Security Committee comprised three Independent Non-Executive Directors and one Non-Executive Director, who was not deemed to be independent under the terms of the Code; she was, however, independent of management. Since 9 March 2023, the Committee comprises two Non-Executive Directors, one of whom is independent and the other of whom (who also chairs the Committee) is an officer of the Allwyn group and therefore not independent under the terms of the Code (though he is independent of management). In addition, steps are being taken to recruit an additional Independent Non-Executive Director to the Board, who would also then join the Committee as its chair.

- Neither of the Executive Directors nor any other member of Camelot staff is a member of these committees. This structure has been put in place in order to enable the sole owner to have an appropriate level of engagement in the work of these two committees and has been agreed by the Board as a whole, which believes that the Remuneration and Audit Committees are appropriately resourced. The Gambling Commission has waived the requirement of Condition 14.2 of the third operating licence that the Company should comply with these two provisions of the Code in respect of the presence of non-independent Non-Executive Directors on these committees, and the number of Non-Executive Directors (two rather than three) on the Remuneration Committee; and a formal waiver has been sought in respect of there currently being only one Independent Non-Executive Director (and, following appointment of the additional director referred to above, two rather than three Independent Non-Executive Directors) on the Audit, Risk and Security Committee.

The Gambling Commission's waivers referred to above are subject to two conditions:

- the Commission must be promptly notified by the Chair, or his nominee, if a Board decision is taken which is voted against by two or more of the Independent Non-Executive Directors; and
- any proposed changes to the Company's Board structure require the Commission's prior written consent.

In previous years, the Chair met the Chair of the Gambling Commission twice a year to discuss performance, but, owing to the Covid-19 pandemic and the fourth licence competition, their direct engagement was limited to one call during the 2020/21 financial year and a subsequent call in April 2021 (both also attended by Commission officials) to discuss performance and National Lottery support for Covid-related initiatives. The Commission declined the offer of direct engagement between Chairs during the 2021/22 and 2022/23 financial years.