

## STRATEGIC REPORT

### The Directors present the Strategic Report of Camelot UK Lotteries Limited (the 'Company' or 'Camelot') for the Year Ended 31 March 2023.

#### Business Review

Camelot generated its best-ever returns to Good Causes from ticket sales in 2022/23 – with returns increasing by £6.2m (0.3%) to £1,807.0m over the period. The Company's performance this year built on the strong brand health, positive stakeholder engagement and business momentum created during the Covid-19 pandemic. Gross ticket sales were £8,190.3m, a growth of 1.2% year on year, but broadly flat when removing the non-repeat impact of above average roll series sales on EuroMillions in the prior and current year. This is despite the continuing disruption caused by the challenging macroeconomic environment.

Camelot's marketing continued to perform strongly in 2022/23, with the Company maintaining the link between play and purpose, and building the long-term health of The National Lottery brand, as measured by its well-established brand positivity metric. This has remained stable over the course of the year despite being impacted by the decline in consumer confidence due to the challenging macroeconomic environment and exceeded its target of 44.5% on a 12-month rolling average basis by reaching 46.2% at year end. Initiatives successfully delivered during the year included:

- The National Lottery's Big Jubilee Street Party at Manchester's AO Arena to mark the Queen's Platinum Jubilee. Billed as the UK's biggest street party – and with 10,000 tickets available free to National Lottery players to thank them for their support for communities across the UK – it featured a star-studded entertainment line-up and was broadcast on ITV over the June bank holiday weekend.
- On the same weekend, Camelot held a special Jubilee 'Must Be Won' Lotto event draw, which exceeded sales expectations by £4m – the best event draw performance outside of Christmas.
- A fantastic 'Summer of Sport' that celebrated The National Lottery's huge contribution to major sporting events, including the UEFA Women's EURO 2022 and the Birmingham 2022 Commonwealth Games. As part of the former,

Camelot devised and staged a special one-off gig for National Lottery players, which saw the Lightning Seeds and David Baddiel – and a host of former Lionesses – perform a special live rendition of 'Three Lions'.

It also held a special EuroMillions 'Millionaire Maker' event draw to celebrate EURO 2022 and a Lotto 'Must Be Won' event draw to mark the end of the Commonwealth Games.

- A special Christmas campaign that centred on uniting people and bringing them together – much like The National Lottery itself does. The campaign – about two strangers who meet on a train and become lucky in love and the lottery – ran across all National Lottery brand activity and game activation over the period, including the EuroMillions Super Minimum Jackpot Guarantee draw in December, special 'Must Be Won' Lotto event draws on Christmas Eve and New Year's Eve, and festive Scratchcards. It also saw Camelot develop 'The National Lottery hosts *Love Actually*' at the cinema, which gave around 50,000 National Lottery players the opportunity to see the film for free, with all tickets being claimed within 72 hours.

The campaign culminated in The National Lottery's Big Bash, which aired on ITV and ITVx over the festive period, and ended 2022 with a bang as 8,000 National Lottery players packed into the OVO Arena in Wembley to see performances from a stellar musical line-up to celebrate extraordinary people and the amazing difference they have made thanks to National Lottery funding.

The overall campaign proved to be highly effective, with playership peaking at 52% – its highest level since January 2020 – and the TV ad receiving significant external recognition: it was awarded *Campaign* magazine's film ad of the year, and was rated number 6 in the top 12 Christmas ads and number 11 in the best ads of the year, as measured by System 1.

#### Business Review (continued)

Camelot's continued focus on delivering in retail, improving in-store standards, evolving distribution and delivering tailored customer service for retailers throughout the year resulted in the Company achieving record net retailer satisfaction, with 77% of retailers either completely or very satisfied (2022: 75%). Average retailer dissatisfaction for the year was at an all-time low – and flat versus 2021/22 – at only 3.5%.

The Company focused on driving awareness of its newer distribution channels – including discounters (Aldi and Iceland), ASDA (draw-based game tickets at self-checkout) and grocery retailers' online platforms (Scratchcards) – as well as the deployment of bespoke point of sale material and enhanced use of in-store digital media. It also trialled geomarketing to drive conversion in Aldi stores.

In addition, it continued its partnership with crowdsourcing specialist Shepper to gain real-time insight regarding point of sale compliance and Scratchcard availability, ensuring Camelot can provide additional support, where necessary, to retailers to help them maximise sales, while also improving overall efficiency. As a result of changes to consumer shopping behaviours and the challenging macroeconomic conditions, the retail channel saw a 3.7% decline year on year, with total in-store sales of £4,499.6m (2022: £4,674.2m).

The Company has continued to maintain strong player growth across its digital channels, through strong retention of players alongside ongoing acquisition activity. The National Lottery now has its highest-ever active digital player base of 10.7 million players (2022: 10.1 million), with the average number of weekly players growing by 9% to 3.9 million players. Strong player engagement has driven record total digital sales of £3,690.7m (2022: £3,416.5m), an increase of £274.2m (8.0%). Average annual spend per player has increased by 1.5% to £343.78, driven by the exceptional series of huge EuroMillions rollover draws.

Playing on mobile continues to be the increasingly popular channel of choice for National Lottery players and saw sales of £2,760.7m (2022: £2,449.4m), with sales through the National

Lottery's app growing by 17.4% to a record-breaking £1,981.9m (2022: £1,687.8m). The National Lottery also has its highest-ever active app player base, with 6.7 million players (2022: 5.9 million). Underpinning the app growth was the Company's investment in improving the 'App Draw-Based Games Number Picker' journey, a number of new online Instant Win Game (IWG) launches and a strong-performing Christmas marketing campaign.

In September 2022, Camelot withdrew its appeal against the Gambling Commission's decision in March 2022 to award the fourth National Lottery licence to Allwyn Entertainment Limited, following which the Commission entered into the Enabling Agreement with Allwyn Entertainment Limited. In the meantime, Camelot continued its overall legal challenge (for damages only) in relation to that decision. Following its acquisition by the Allwyn group in February 2023, Camelot discontinued its legal challenge. Throughout the year, as the outgoing licensee, Camelot continued working to support the transition to the fourth licence, which commences on 1 February 2024.

#### Strategy and Outlook

Camelot's mission is to change lives – the lives of National Lottery winners who have scooped life-changing prizes, as well as the lives of millions of people who benefit from the more than £30 million in Good Cause funding that is raised every week by National Lottery players. The Company achieves this through growing sales in a socially responsible manner, which, under the aligned model set out in the third licence, maximises returns for National Lottery Good Causes and for Camelot's shareholder.

The Company's strategy aims to achieve objectives beyond sales growth and maximising returns to society, and its vision reflects this by stating that it wants to "enhance the relevance of The National Lottery at a time of national change". Camelot is a socially responsible organisation, maintaining high standards of player protection and corporate governance, as well as safeguarding its position as a highly cost-efficient lottery operator.

The Company continues to deliver against its strategic plan across its three key pillars as follows:

## STRATEGIC REPORT (CONTINUED)

### Strategy and Outlook (continued)

#### 1. Delivering Brand-led Growth

##### a) Continuing to ensure that The National Lottery brand is relevant and visible

As the Company nears the end of the third National Lottery licence, marketing is the primary lever by which it will continue to drive relevance of The National Lottery brand and portfolio to the UK public. In 2022/23, Camelot continued to deploy its brand-led marketing approach with its 'Your Numbers Make Amazing Happen' campaign, which highlights the positive impact of The National Lottery on all facets of society.

To this end, the Company also continued to work closely with the National Lottery distribution bodies and other key partners to maximise the impact of this marketing messaging.

One key highlight of 2022/23 was Camelot's biggest-ever Christmas campaign, which brought to life the idea that "anything is possible at Christmas". The campaign was the Company's most emotional to date and featured a TV ad about two strangers who meet on a train and become lucky in love and the lottery, exclusive screenings at cinemas across the country for National Lottery players of Christmas classic *Love Actually*, and a massive New Year's Eve party for 8,000 players – all free of charge as a thank you to them for playing The National Lottery and supporting Good Causes – which was broadcast on ITV and ITVx.

Alongside this, there were Christmas Scratchcards to play, a special EuroMillions Super Minimum Jackpot Guarantee draw and two 'Must Be Won' Lotto event draws on Christmas Eve and New Year's Eve. The entire campaign succeeded in making sure that The National Lottery remains relevant and unmissable, reaching 87% of UK adults in launch week alone, and featuring prominently across 10,000 outdoor panels on trains, at bus stations and other venues across the UK.

To deliver its strategy, Camelot continues to optimise the level of marketing required to support The National Lottery brand and portfolio of games, adapting to changes in both consumer behaviour and the media market. In some cases, Camelot has sought investment from Good Causes to increase the level of available marketing to this optimum level, having demonstrated that Good Causes will receive a strong return on this investment.

The total value of funding for marketing received from Good Causes was £76.1m (2022: £76.8m). Further marketing spend by Camelot was £86.1m (2022: £86.8m). Marketing investment from Good Causes will continue to be sought for 2023/24 to maintain the long-term health of The National Lottery.

##### b) Optimising its range of games to ensure that the portfolio offers something for everyone

The Company maintained its longstanding focus on offering players a compelling range of games and propositions.

The draw-based games highlight was EuroMillions, which continued to deliver record-breaking jackpots in line with previous changes made to the game. Five massive EuroMillions jackpots were won in the UK over the period – with three ticket-holders winning prizes so big that they immediately became the UK's biggest-ever winners, including a record EuroMillions jackpot of £195 million in July 2022.

Lotto, meanwhile, continued to perform steadily despite seeing fewer sales-driving 'Must Be Won' draws over the period and lived up to its millionaire-maker reputation by awarding 134 prizes of £1 million or more over the period.

Sales across the Instants category were flat year on year, with growth in online IWG sales – driven by regular new game launches and people buying them as spontaneous add-on products to go with their EuroMillions tickets – largely offset by a dip in sales of in-store Scratchcards in a reflection of changing shopping habits and the ongoing challenging retail environment.

##### c) Continuing to invest in improving standards and engagement in retail, as well as improving awareness of The National Lottery within the new distribution channels in which consumers are now shopping

Camelot's investment in retail will continue as the Company seeks to sustain the high retail standards and engagement that it has seen in recent years. A multi-faceted contact model providing high levels of support to National Lottery retailers will continue to be used, and will see the Retail Sales Team and Operational Sales Team – together with third-party agency visits – focusing on returns to Good Causes, maximising game events, operational support and dedicated calls to promote healthy play.

### Strategy and Outlook (continued)

#### 1. Delivering Brand-led Growth (continued)

##### c) Continuing to invest in improving standards and engagement in retail, as well as improving awareness of The National Lottery within the new distribution channels in which consumers are now shopping (continued)

The retail landscape continues to evolve, with a drop in footfall in some sectors, and shoppers choosing discounters and home delivery within their grocery journeys. The Company will continue to support changing customer trends, including driving awareness in discounters, at mainbank tills, at self-checkout terminals and across rapid delivery platforms.

##### d) Sustaining the shift to digital by growing awareness of the National Lottery app, and using CRM to unlock player value and acquisition growth

Digital remains an important source of growth, and Camelot continues to invest in developing a strong app platform, combined with enhancing and developing its customer relationship management (CRM) marketing activity for app players. Initiatives during the year included a significant update to enhance the draw-based game number picking experience on the app and the launch of an inbound cashback promotions capability.

In the final year of the third licence, the Company will leverage these improvements on the app to increase awareness and downloads through marketing activity, alongside the continued optimisation of its CRM programme and promotional campaigns.

#### 2. Putting Players at the Heart

Promoting healthy play and ensuring that The National Lottery is the safest place to play remain central to Camelot's overall business strategy. The Company maintains high standards of player protection and has a clear player protection strategy to prevent underage and excessive play. This year, the Company's activity has focused on:

- Ongoing training and support for retailers on the age to play and delivering the 'Being a Responsible Retailer' training programme, which focuses on healthy play. The Company's underage mystery shopper programme – 'Operation 18', which tests

that retailers correctly ask for ID as proof of age – produced a record-breaking first visit pass rate of 92%, demonstrating the effectiveness of Camelot's engagement with retailers, particularly in light of the fact that the age to play National Lottery games only changed from 16 to 18 years of age in 2021.

Elsewhere, Camelot's healthy play mystery shopping initiative involved over 4,000 additional store visits, helping to educate retailers on the signs of potential unhealthy play among their customers. As a result of this and other initiatives, 94% of retailers visited in 2022/23 successfully passed a healthy play knowledge check – underlining the success of Camelot's regular communication with retailers on this important aspect of their role as the face of The National Lottery.

- Updating the 'add funds' page, which players use to deposit funds into their online National Lottery account, following research by the Behavioural Insights Team which highlighted that deposit limit tools should not present any predetermined minimum or maximum amounts that could act as financial 'anchors'. Camelot removed references to the weekly deposit limits and updated the page so that a free-text box is now presented to players to enter the amount of funds they wish to add (within Camelot's overall limits).
- Independently evaluating the effectiveness of the current digital interventions programme for at-risk players and updating it in line with recommendations. Building on the previous iteration, which was found to be successful in encouraging at-risk players to change their behaviour, the interventions programme was refined further to include more positive reinforcement and references to spend in addition to depositing. The refreshed set of interventions will again be evaluated for their effectiveness in the coming year, the outcome of which will support further development of the interventions programme. This will ensure that Camelot continues to evolve its approach to promoting healthy play, particularly among players demonstrating risky play behaviours.

## STRATEGIC REPORT (CONTINUED)

### Strategy and Outlook (continued)

#### 2. Putting Players at the Heart (continued)

- Undertaking a comprehensive review of National Lottery marketing, advertising, communications collateral and games to remove potential risks of appeal to those under 18 following changes to the Committee for Advertising Practice (CAP) Code. The new rules require that all lottery advertising must not include any content (imagery, themes and characters) which is likely to be of strong appeal to under-18s – with the new ‘strong appeal’ test replacing the previous ‘particular appeal’ one. As a result, Camelot removed – or didn’t extend the licensing for – games such as Monopoly and Scrabble, and modified the artwork on the ‘£300k Fruity Bingo’ and ‘Winter Wonderlines’ online IWGs.

The Company believes that this approach is having a positive impact on its players. The number and proportion of at-risk players playing via online channels are at their lowest levels since the introduction of Camelot’s behavioural analytics model – Mercury – in December 2019. In addition, retailers are achieving extremely high pass rates for healthy play knowledge checks and the ‘Operation 18’ mystery shopper programme.

The Company has also added a new option for players to initiate a conversation on the topic of healthy play via webchat which can, at certain times of the day, be accessed on The National Lottery’s healthy play webpage. Crucially, it is available to any user of the website – players do not need to be logged in to access it. These webchats are routed to a dedicated team whose members have had additional training to offer support in any healthy play scenario.

The Company believes that the approach it has continued to take aligns with the perspective of the Gambling Commission, and differentiates Camelot and The National Lottery from other operators.

#### 3. Operating with the Highest Integrity

Maintaining high levels of trust in the operational integrity of The National Lottery requires continuous improvement and investment – both of which have played a core role in everything that the Company has delivered during the year. Camelot’s overall aim is to continue to assure and improve the operational integrity of the business, and reduce both risk exposure and the likelihood and impact of incidents. To achieve this, there are four areas of focus:

- continuing to invest in cyber security to maintain the Company’s capabilities in the face of evolving threats;
- continuing to invest in maintaining technology systems and infrastructure as they reach the end of their lives to ensure that the Company’s technology operation remains fit for purpose and meets the requirements for transition to the new operator;
- ongoing continuous improvement in the maturity of operational processes and the internal control environment; and
- embedding operational integrity into all operational aspects of Camelot’s work.

### Key Performance Indicators (KPIs)

The Company’s primary financial KPIs are gross ticket sales, returns to Good Causes, net income, profit after tax and cash flows from operating activities. In addition, Camelot maintains and reports on specific non-financial KPIs assessing standards of performance on player accessibility, including terminal sales availability and the service provided to players, as well as healthy play and operational integrity metrics. All of these KPIs are monitored on a regular basis by the Executive Team and Board. In addition, they are submitted to the Gambling Commission as required. Further information on these KPIs can be found in the Financial Performance section on the following pages.

### Financial Performance

#### Gross Ticket Sales

Gross ticket sales for the year ended 31 March 2023 were £8,190.3m (2022: £8,090.7m).

Within this amount, sales for draw-based games totalled £4,739.4m (2022: £4,647.5m), an increase of 2.0%. Underlying draw-based game performance was broadly in line with the prior year and was further boosted by high EuroMillions jackpots.

Sales of Instants games (Scratchcards and online IWGs) exceeded expectations despite macroeconomic pressures, with sales 0.2% higher than the prior year at £3,450.9m (2022: £3,443.2m).

### Financial Performance (continued)

#### Gross Ticket Sales (continued)

At the end of 2021/22 when Covid restrictions were lifted, increased mobility had an adverse impact on Scratchcard sales. A strong focus on ranging and availability – as well as the series of huge EuroMillions rollover jackpot draws – has aided the recovery and growth of the Instants category. The majority of the prior year’s growth in IWGs was maintained through the continued development of The National Lottery’s app and improvements to the range of games.

Sales in retail continue to be impacted post-Covid-19 which, combined with increasing macroeconomic pressures, are showing signs of longer-term changes in player behaviour. The channel shift to digital has been maintained, leading to underlying digital sales growth this year, and, as a result, has increased as a proportion of overall sales, in line with Camelot’s strategy, accounting for 45.1% of all sales (2022: 42.2%).

Camelot operates the world’s largest digital lottery in terms of revenue and, with 10.7 million active registered players (2022: 10.1 million), national-lottery.co.uk is one of the leading e-commerce sites in the UK.

#### Lottery Duty

Lottery Duty has remained at 12% of sales, and totalled £982.8m for the year (2022: £970.9m).

#### Prizes

Total prizes were £4,694.0m in the year (2022: £4,612.3m). This represents 57.3% of sales (2022: 57.0%), with the sales mix between draw-based games and Instants remaining stable year on year.

In any lottery, there are prizes which remain unclaimed. If National Lottery prizes are not claimed within 180 days of either the draw date or date of play for draw-based games and IWGs respectively, or 180 days after the close of a National Lottery Scratchcard game, they are paid over to the National Lottery Distribution Fund (NLDF).

Camelot continues to make every effort to publicise unclaimed draw-based game prizes worth £50,000 or more, either via local or national publicity. Unclaimed prizes, which are paid to the NLDF, for the financial year amounted to

0.9% (2022: 1.4%) of sales and totalled £70.3m (2022: £111.0m), with the year-on-year decrease predominantly driven by lower unclaimed prizes on Scratchcards and the channel shift towards digital draw-based games where low tier prizes are automatically paid into players’ wallets.

#### National Lottery Distribution Fund (NLDF)

The NLDF is the central fund from which the National Lottery distribution bodies receive funds for distribution to Good Causes. In aggregate, the total raised for Good Causes amounted to £1,877.3m, representing 22.9% of sales (2022: £1,911.8m; 23.6%) for the year.

This included £1,807.0m (2022: £1,800.8m) in returns from ticket sales and other payments due from relevant income, as specified in the operating licence, and a further £70.3m (2022: £111.0m) in unclaimed prizes. This amount has been reduced by £76.1m (2022: £76.8m), which has been retained by Camelot for necessary marketing expenditure to support the long-term health of The National Lottery, as agreed with the Gambling Commission.

The amount of money returned to Good Causes is determined by the mix of games sold, as every game has a different percentage return. Draw-based games return more in percentage terms than Scratchcards and IWGs. As a result, the changing sales mix between these products will result in a change in the percentage of sales that is returned to Good Causes.

Camelot is subject to a profit-capping mechanism. Where its profits exceed a certain threshold, which depends on sales levels achieved, the additional profits are shared with Good Causes in the form of Secondary Contributions.

Total Secondary Contributions for the year were £6.1m (2022: £11.1m), a decrease of 45%. This is based on an ‘adjusted profits’ calculation as defined under the third licence.

#### Net Income

Net Income for the year remained broadly consistent at £706.5m (2022: £706.7m), with higher sales being offset by higher Lottery Duty, prize payout and Good Cause payments.

## STRATEGIC REPORT (CONTINUED)

### Financial Performance (continued)

#### Retailers' and Other Commission

Total sales, validation and other commissions for the year totalled £268.3m, representing 3.3% of total sales (2022: £276.5m; 3.4%). This includes both commission paid to retailers and bank fees paid on interactive sales transactions.

The commission rate paid to retailers for Scratchcard sales is 6% and, for draw-based game sales, 5%. In addition, retailers receive 1% commission for prizes paid out above £10 for Scratchcards and £30 for draw-based games, both up to and including £500. The Post Office is able to validate prizes between £500 and £50,000, for which it continues to receive an annual payment, the quantum of which is subject to meeting contractual commitments.

#### Gaming Systems and Data Communication Costs

Gaming systems and data communication costs decreased to £126.4m for the year (2022: £127.1m). These costs include the cost of maintaining software, terminals and the communications network, all expenditure associated with the purchase of National Lottery Scratchcard tickets, point of sale and other consumables, together with the depreciation of gaming systems, terminal and data communications equipment.

#### Administrative Expenses

Administrative expenses were £228.0m (2022: £218.1m), and consisted of advertising and marketing expenditure, depreciation, impairment, staff, facilities and all other administrative costs. The increase was driven primarily by fourth licence legal challenge costs, inflationary increases and continued fourth licence staff costs, which resulted in operating profit of £87.3m, a reduction of £4.0m compared with the prior year.

#### Finance Income and Costs

Net finance income during the year amounted to £1.6m (2022: £1.1m). Finance income increased to £3.9m in the year (2022: £3.3m), and primarily consists of interest receivable on bank deposits and interest received from the previous parent company, Premier Lotteries UK Limited, on a £26.0m loan which was repaid during the year (2022: £26.0m). The finance costs of £2.3m were consistent with the prior year (2022: £2.2m), primarily consisting of interest costs on leases.

The average yield on investment was approximately 1.48% (2022: 0.04%). Strict controls apply to treasury operations, which are reviewed regularly.

The Company's treasury policy is approved by Camelot's Audit, Risk and Security Committee, and the Board. Funds are only deposited with banks which hold an investment grade credit rating by S&P, Moody's or Fitch, and which meet the Company's treasury policy criteria.

#### Profit

The Company's profit before income tax was £88.9m (2022: £92.4m). Profit after taxation for the financial year was £73.9m, 0.90% of gross ticket sales (2022: £81.6m; 1.01%).

#### Taxation

The corporation tax charge of £15.0m for the year (2022: £10.8m) represents an effective tax rate of 17% (2022: 19.0%). Further detail is provided in note 7 to the financial statements.

#### VAT

Sales of lottery tickets are exempt from VAT. Therefore, VAT is not normally recoverable on the Company's costs and is a charge against profits. The VAT cost for the year, including that arising on capital expenditure, was £50.0m (2022: £48.1m).

#### Dividends

The Company's profit for the financial year was £73.9m (2022: £81.6m), as disclosed in the Statement of Comprehensive Income on page 190. As detailed in note 8, total dividends paid in the year under review were £102.3m (2022: £81.6m), all of which was paid to the Company's former parent company, Premier Lotteries UK Limited, during the year and £7,000 to Fourmoront Corporation (2022: £7,000).

#### Financial Position at the Year End

The Balance Sheet reflects the continuing financial stability of the business. Total equity was £49.6m as at 31 March 2023 (2022: £78.0m).

The value of property, plant and equipment, right-of-use assets and intangible assets has decreased to £23.5m in the current year (2022: £60.3m).

The decrease is in line with expectations, caused by the amortisation and depreciation of assets as the business approaches the end of the current licence when materially all assets in those classes will have a net book value of £nil.

### Financial Performance (continued)

#### Financial Position at the Year End (continued)

Current trade and other receivables have increased to £578.0m from £513.3m in 2022, mainly due to increased levels of prizes won but not yet claimed.

The cash and cash equivalents balance increased to £212.7m (2022: £173.3m) as a function of working capital cash flows, which is discussed in more detail in the 'Cash Flows, Cash and Debt' section below.

Non-current financial liabilities and borrowings have decreased to £0.5m (2022: £9.9m), representing a reduction in lease liabilities as most lease liabilities have been classified as current as the business nears the end of the third licence, and no additional leases were entered into in the year.

Current financial liabilities and borrowings have decreased to £9.5m (2022: £10.6m). This balance represents the current portion of lease liabilities.

Current trade and other payables have increased to £746.7m (2022: £669.5m), due to an increase in prize payment liability driven by the timing of prize claims and utilisation of promotional prize funds.

Total provisions have increased to £28.3m, from £23.1m in 2022, primarily due to additional provisions relating to long-term staff retention incentives.

#### Investment in Technology

During the current year, Camelot has maintained the infrastructure to run The National Lottery and, at the end of the financial year, 43,041 lottery terminals were in operation across its retail footprint (2022: 44,564).

As the Company approaches the end of the third licence, it is committed to delivering new digital and Scratchcard games, and increasing one-to-one player communications. To meet these commitments, the Company continues to invest in technology and back office systems to support these initiatives, drive operational efficiencies and maintain the technology infrastructure required for a successful transition into the fourth licence period.

Terminal sales availability, a key performance indicator monitored monthly by the Gambling Commission, was 99.95% (2022: 99.96%), ahead of the operating licence target of 99.50%. In addition, system availability for playing games on the internet was 100% (2022: 100.00%), ahead of the operating licence target of 99.50%.

### Cash Flows, Cash and Debt

Net cash generated from operations was £148.6m (2022: £109.0m). The increase was due predominantly to a higher cash impact from movements in working capital than in the prior year, primarily driven by higher sales. Cash outflows primarily include dividend payments of £75.5m (2022: £81.6m), net taxation-related payments of £17.0m (2022: £16.4m) (including an element for group relief), £7.8m (2022: £12.7m) of investment in property, plant and equipment and intangible assets, and principal lease payments of £10.5m (2022: £11.3m). The closing cash balance was £212.7m (2022: £173.3m).

Cash flow from operating activities represented gross ticket sales less prize payments, Lottery Duty, payments to the NLDF and operating expenditure. Cash is received from retailers net of prizes paid by them and commission due to them. Settlement of retailers' debts is on a weekly basis, as are payments due to the NLDF and payments into trust for the benefit of players.

In order to protect prize-winners and players, Camelot has set up certain trust accounts operated by The Law Debenture Trust Corporation plc, which acts as an independent trustee. An amount equivalent to prizes is deposited into a trust account on a weekly basis, as well as monies taken in advance and money held by interactive players in their online wallets. This money is held in trust until paid as a prize, or entered into a draw, and is under the control of the trustees until this time. Interest earned on these accounts, after accounting for trust expenses, is for the benefit of the NLDF.

At 31 March 2023, Camelot had on deposit £5.2m (2022: £4.8m) of funds in a restricted cash trust account as a reserve related to Camelot's share of EuroMillions community sales. Camelot holds a Surety Bond with HCC International Insurance Company PLC to the value of £21.0m (2022: £21.0m). The provisions for Camelot to be able to satisfy its security for players' funds obligations under the licence, by way of a Surety Bond, are set out in Condition 19.3 of the licence.

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).

## STRATEGIC REPORT (CONTINUED)

### Statement describing how the Directors have had regard to the matters set out in section 172(1)(a) to (f) of the Companies Act 2006

#### Overview

The Strategic Report is required to include a statement describing how the Directors have had regard to the matters set out in section 172(1)(a) to (f) of the Companies Act 2006 during the year ended 31 March 2023 when performing their duty under section 172 of the Act.

Section 172(1) of the Companies Act 2006 states:

*“A Director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to –*

- (a) the likely consequences of any decision in the long term,*
- (b) the interests of the company's employees,*
- (c) the need to foster the company's business relationships with suppliers, customers and others,*
- (d) the impact of the company's operations on the community and the environment,*
- (e) the desirability of the company maintaining a reputation for high standards of business conduct, and*
- (f) the need to act fairly as between members of the company.”*

All activity and decision-making by the Directors is undertaken in the context of a single shareholder, the constitution of the Board, the length of Camelot's licence to operate The National Lottery, the Company's strategic and annual planning cycle, and the monitoring by the Directors of its performance against its annual plan and budget.

### The Promotion of the Success of Camelot for the Benefit of its Members as a Whole

From 1 April 2022 until 5 February 2023, Ontario Teachers' Pension Plan (OTPP) was Camelot's sole beneficial shareholder. At one second past midnight on 5 February 2023, all shares in the Company were purchased by Allwyn UK Holding B Ltd, a subsidiary of the Allwyn group.

Before and after the sale, the Directors included among their number senior representatives of the shareholder (OTPP until 5 February 2023 and then Allwyn), others of whose staff also attended meetings of the Board. The Directors, therefore, were (and continue to be) able to perform their duty under section 172(1) with unique and direct access to the perspectives and interests of the successive shareholders, which themselves during the period of their respective ownership fully endorsed and supported the importance of the Board having due regard to a broad range of matters including those referred to in section 172(1)(a) to (f).

As all of the Directors are aware, the Chair, the Executive Directors and other members of the senior management team also continued throughout 2022/23 to have regular discussions with OTPP's and, subsequently, Allwyn's staff on a variety of matters relating to Camelot's business outside the scope of formal Board activity.

#### a) The Likely Consequences of Any Decision in the Long Term

Allwyn and the Directors take the view that Camelot should ensure as far as possible that The National Lottery will be best placed to continue to flourish after the expiry of Camelot's third licence and the successful transition to a new operator. However, during 2022/23, the Directors' regard for the likely consequences of any decision in the long term in relation to their duty under section 172(1) was necessarily undertaken in the overarching context of the remaining period of Camelot's current licence and its responsibilities to support a smooth transition to Allwyn Entertainment Limited as the fourth licence operator. This context is reflected in the Directors' Going Concern and Viability Statements on pages 163 to 165 of this Annual Report and Accounts.

### Statement describing how the Directors have had regard to the matters set out in section 172(1)(a) to (f) of the Companies Act 2006 (continued)

#### The Promotion of the Success of Camelot for the Benefit of its Members as a Whole (continued)

##### a) The Likely Consequences of Any Decision in the Long Term (continued)

Under the governance arrangements approved by the shareholder and the Camelot Board, Camelot's strategy and related business plans (setting out all significant product, channel, operational and organisational initiatives for each year) and the year's annual budget require the Board's express approval. Any additional business cases during the year relating to any significant game, channel or other operational changes above levels of investment or expenditure specified by the Board also require the approval of the Board. Any such additional approvals during the year are supported by information and advice prepared for the Directors' consideration by Camelot's senior management, including as to how the relevant initiative will contribute to Camelot's strategy and business plans.

The Annual Budget and associated Annual Business Plan for 2022/23 were prepared by senior management and considered by the Board on an iterative basis, and the plan was finally considered and approved by the Board at its meeting in April 2022.

Similar to previous years, the Directors were then able to monitor Camelot's performance against the 2022/23 Annual Budget and Annual Business Plan regularly throughout 2022/23. Monitoring took place in respect of a range of detailed key milestones and performance indicators – by means of weekly and monthly reporting to Directors (and, in addition, others of OTPP's and subsequently Allwyn's staff) of Camelot's performance against defined key milestones and performance indicators, and by a more detailed business update (which includes significant findings of post-implementation reviews of key initiatives) presented by the senior management team for scrutiny at each meeting of the Board throughout 2022/23.

Taken together, these governance arrangements enable the Directors to assess on a continuing basis the extent to which the consequences of any particular decision are consistent with what was expected at the time it was taken, and, accordingly, whether it is appropriate to consider any corrective or alternative action (including all of the business initiatives referred to in the Chair's Statement and Co-Chief Executive Officers' Review on pages 18 to 21 and 22 to 27 respectively).

All remaining long-term decisions relate to transition and Camelot, as the outgoing licensee, continues working with Allwyn Entertainment Limited to prepare for the fourth licence which commences on 1 February 2024.

##### b) The Interests of Camelot's Employees

Retaining the talent and experience within the Company was a pillar of the 2022/23 Annual Business Plan, which the Board monitored on a regular basis throughout the year in accordance with the governance arrangements described in the preceding section (“The likely consequences of any decision in the long term”).

Camelot continues to promote hybrid ways of working, encouraging staff to balance the time they spend in the office and working from home. The Company has carried out regular surveys with staff to collect their views and insights on engagement, and also on working arrangements.

Performance against key performance indicators relating to that part of the 2022/23 Annual Business Plan, and against milestones for related activities, was included in monthly reports to Directors and in the business update given by senior management at each meeting of the Board throughout the year. The business update to the Board also included more detailed information on staff-related activities through the year, including engagement survey results, initiatives focusing on leadership and learning, all-staff update meetings, talent reviews and succession planning. This also included close monitoring of retention metrics like staff turnover and resignations, open vacancies and exit interview results.

## STRATEGIC REPORT (CONTINUED)

### Statement describing how the Directors have had regard to the matters set out in section 172(1)(a) to (f) of the Companies Act 2006 (continued)

#### The Promotion of the Success of Camelot for the Benefit of its Members as a Whole (continued)

##### b) The Interests of Camelot's Employees (continued)

In addition, the 2022/23 annual bonus scheme for all staff was reviewed, approved and monitored throughout the year by the Board's Remuneration Committee, which met during the year to discuss and agree retention planning. To support people through the increased cost of living crisis, the Committee also approved cost of living relief payments to employees earning less than £50,000.

Succession planning for Camelot's senior Leadership Team continued to be considered by the Nominations Committee of the Board during 2022/23, meetings of which are also attended by Camelot's People Director. Other matters overseen by the Committee included Camelot's Board and Company policies on diversity and inclusion.

Further information on activity relating to Camelot's employees during 2022/23 is included in "Our People" on pages 122 to 141.

##### c) The Need to Foster Camelot's Business Relationships with Suppliers, Customers and Others

Specific initiatives relating to Camelot's relationships with its players and National Lottery retailers, and engagement with stakeholders, were at the heart of its 2022/23 Annual Budget and Annual Business Plan. Performance against key performance indicators relating to those parts of the Annual Business Plan, and against milestones for related activities, was included in monthly reports to Directors and in the business update given by senior management at each meeting of the Board throughout the year. The business update to the Board also included more detailed information on these activities throughout the year.

The key risks (and mitigations) identified by Camelot with respect to these business relationships include fourth licence transition;

staff retention and recruitment; management of key supplier and partnership relationships; the regulatory environment; management of healthy play; player engagement; impact of the macroeconomic environment; the retailer environment; the digital channels; failure of key technology or systems; and failure to manage the risk of unauthorised access to systems or data or cyber attack.

The Audit, Risk and Security Committee of the Board (which was typically attended by all Directors, including those who are not members of the Committee) considered the status of all of these risks at each of its meetings during the year. Further information relating to the principal risks is included in this Strategic Report on pages 146 to 161.

Up until the sale of the Company in February 2023, each of the Independent Non-Executive Directors continued to have responsibility for oversight of particular aspects of Camelot's activities and reflecting any issues at Board level – all of which, to a greater or lesser extent, included oversight of Camelot's relationships with suppliers, customers and other stakeholders:

Sir Hugh Robertson – external relations (resigned 5 February 2023)

Jane Rowe – relations with OTPP (resigned 5 February 2023)

Rob Rowley – finance, risk and audit operations (resigned 5 February 2023)

Jennelle Tilling – marketing and engagement with Camelot's workforce, and healthy play

Robert Walker – operations (including retail operations) (resigned 5 February 2023)

Gill Whitehead – digital and technology (resigned 21 April 2022)

David Kelly – digital and technology (resigned 5 February 2023)

Three new Independent Non-Executive Directors have been appointed to the Board following the sale to Allwyn and resignation of the previous Non-Executive Directors as indicated above:

Lord Sebastian Coe (appointed 5 February 2023)

Amanda Horton-Mastin (appointed 5 February 2023)

Sir Keith Mills (appointed 5 February 2023)

Three new Shareholder-Nominated Non-Executive Directors – Katarina Kohlmayer, Robert Chvátal and Kenneth Morton – were also appointed on 5 February 2023.

### Statement describing how the Directors have had regard to the matters set out in section 172(1)(a) to (f) of the Companies Act 2006 (continued)

#### The Promotion of the Success of Camelot for the Benefit of its Members as a Whole (continued)

##### c) The Need to Foster Camelot's Business Relationships with Suppliers, Customers and Others (continued)

In addition, a new Executive Director, Neil Brocklehurst, was appointed to the Board as Co-Chief Executive Officer (with Clare Swindell) on 5 February 2023.

Further information on Camelot's business relationships with suppliers, players and others is included in "Doing Business Responsibly" on pages 96 to 121.

##### d) The Impact of Camelot's Operations on the Community and the Environment

Doing business responsibly means operating with integrity, and this underpins all activity undertaken by the Directors. Camelot delivers on its aim to maximise returns to Good Causes by selling National Lottery products in a socially responsible way, with a lot of people playing a little. Promoting healthy play and being the safest place to play remain strategic objectives, while raising as much money as possible to enable the National Lottery distribution bodies to continue to fund local and national community and environmental projects throughout the UK.

The Board duly considered and approved the Annual Business Plan for 2022/23, and then monitored it throughout the year (including in relation to protecting players and returns to Good Causes) in accordance with the governance arrangements described earlier in the section on "The likely consequences of any decision in the long term" (pages 154 to 155).

During 2022/23, corporate responsibility was again central to how Camelot operated – from the way it trained and protected its employees, advised big winners and treated suppliers, to how it safeguarded data, supported its local

communities through volunteering and considered its environmental footprint. Any significant issues or developments were included in reporting to the Board during the year in accordance with the governance arrangements referred to previously.

Further information on Camelot's work relating to its local communities and the environment is included in "Doing Business Responsibly" on pages 96 to 121.

##### e) The Desirability of the Company Maintaining a Reputation for High Standards of Business Conduct

The protection of National Lottery players and promotion of healthy play, operating with the highest integrity and ensuring that Camelot maintains an excellent reputation for how it operates continued as some of the pillars of the 2022/23 Annual Business Plan. Performance against key performance indicators relating to specific initiatives, and against milestones for related activities, was included in monthly reports to Directors and in the business update given by senior management at each meeting of the Board throughout the year. The business update to the Board also included more detailed information on these matters throughout the year.

More broadly, led by the Board, Camelot has a high-integrity culture, with appropriate policies, training and processes relating to anti-bribery and corruption and whistleblowing, together with substantial business control functions such as Programmes, Security Operations, Business Assurance (which includes Internal Audit), Finance, Legal (which includes the Company Secretarial function and the Data Protection Officer), Procurement and Regulation. The Board continued to oversee these aspects of Camelot throughout the year through the Audit, Risk and Security Committee.

Further information on Camelot's work in contributing to maintaining its reputation for high standards of business conduct is included in "Doing Business Responsibly" on pages 96 to 121.

##### f) The Need to Act Fairly as Between Members of Camelot

Camelot continues to have only one sole beneficial shareholder and, therefore, the Directors were not required to have regard to this particular matter during 2022/23.

## STRATEGIC REPORT (CONTINUED)

### Risks, Uncertainties and Opportunities

The third operating licence provides Camelot with significant opportunities, as well as some significant risks and uncertainties, and these are managed through the Company's enterprise risk management framework, further details of which are provided in the Report on Corporate Governance.

The risks which the Board considers may have a significant impact on the results of Camelot and its ability to achieve its strategic objectives are defined as the Company's principal risks. The principal risks can occur independently from each other or in combination.

During the year, the Audit, Risk and Security Committee (ARSC) and Board conducted reviews of Camelot's principal risks. Throughout the year, the Board of Directors continued to assess the risk definitions with regard to the uncertainty occasioned by the outcome of the fourth licence competition and the subsequent legal challenge during the year.

#### Mitigation and Controls

Camelot adopts mitigation activities in the form of internal controls for all key principal risks, as part of quarterly internal reviews. Compliance activities related to these internal controls include reporting to the Compliance & Risk Committee, the Board, the ARSC, Executive management team, and monitoring compliance with Camelot's policies. The effectiveness of risk mitigations against risk definitions are supported through a suite of risk metrics.

The Company identifies its key principal risks and mitigations as follows:

#### Fourth Licence Transition

**Camelot is unable to fulfil its obligations (eg providing certain information/data at key milestones, providing Transition Assistance Services (TAS) or undertaking the Asset Survey) under the Cooperation Agreement (which governs the transition to the fourth licence operator) to time and/or quality.**

During the year, the Board reviewed management's detailed assessment of outgoing licensee risks, and monitored the preparation and related activities within Camelot to meet outgoing licensee responsibilities under transition.

#### People

**Due to the period of uncertainty for the remainder of the third licence and beyond February 2024, there is a risk of unwanted attrition, difficulty in recruiting key roles and a fall in engagement levels. The Company may therefore have difficulty in ensuring the right skill-sets exist in the organisation, which, along with lower levels of engagement, could impact organisational performance.**

The Company maintains an organisational health dashboard which tracks and monitors key metrics such as attrition, absences and levels of engagement. In addition, succession and retention plans for key roles across the business are subject to regular review at Operational and Executive level.

Camelot's ongoing programme of pulse and annual engagement surveys enables it to regularly measure engagement levels across the Company and to implement appropriate actions in a timely manner.

#### Key Supplier/Partnership Relationships

**Service disruptions from key suppliers and operational failures could be experienced due to the inability of suppliers to provide their services or the inability of Camelot to maintain robust and effective working relationships with key suppliers/partners.**

The Company maintains ongoing working relationships with key suppliers and partners, and conducts regular reviews to assess operational performance and resilience. Through its designated Relationship Managers, Camelot continues to monitor and regularly engage with key suppliers to assess the adequacy of their Business Continuity Plans (BCPs).

Camelot's BCPs are created, assessed and maintained to ensure minimal business disruptions, and it aligns with ISO 22301: Business Continuity Management System by operating the same framework, management systems and plans that were successfully audited against last year.

### Risks, Uncertainties and Opportunities (continued)

#### Mitigation and Controls (continued)

#### Regulatory Environment

**The regulatory environment might not ensure licence compliance or support an effective working relationship and operating model with the Gambling Commission: specifically, the risk that the delivery of Camelot's Annual Business Plan and Outgoing Licensee Plans are impacted by the Gambling Commission's low-risk appetite and approach to issues and other approvals resulting from challenges associated with the end of licence and exit from the third licence.**

The Company has a high-integrity culture and has identified accountable people against each of its licence requirements, and reviews and updates this on a regular basis. Licence compliance is also embedded in Company processes and procedures. Business control functions – such as the Regulatory Affairs, Risk, Compliance and Internal Audit, Procurement and Process Governance Teams – monitor compliance through their activities.

The Company maintains regular senior management meetings between Camelot and the Gambling Commission, along with regular engagement with key business control functions, such as Regulatory Affairs and Risk, Compliance and Internal Audit. The Company also proactively shares performance data, as well as strategic plans and proposals requiring approval, so that it is able to work effectively with the Gambling Commission and be held to account.

#### Management of Healthy Play

**Camelot neither adopts an appropriate healthy play strategy, nor has suitable operational activities and metrics to protect players and provide early warnings of at-risk and problem play.**

The proportion of at-risk players remains at all-time low levels since the Company's interventions programme was updated in November 2021 and subsequently November 2022 (and since inception in December 2019). The company continues to exceed its target of at-risk players changing their overall play behaviour after receiving interventions. Retailer knowledge checks on excessive play are well above target, while the first visit pass rate on the 'Operation 18' mystery shopper programme exceeded the annual target and was the best since the scheme launched.

#### Player Engagement

**The relevance of The National Lottery remains critical to the success of the business. Failure to ensure that games remain relevant and that players remain engaged when there is significant pressure on consumers' discretionary spend could lead to a decline in sales and returns to Good Causes.**

As mentioned earlier in the Strategic Report, the Company addresses this risk by ensuring that The National Lottery's brand and portfolio of games continue to remain relevant to a wider player base through marketing communications, channel initiatives, game propositions and events. The Company adapts its marketing and communications plans, which help to ensure that The National Lottery remains relevant to players with a focus on the impact of Good Causes on society.

The macroeconomic environment remains uncertain, with consumers remaining pessimistic about their financial situation as the economic backdrop becomes more challenging. Growing pressure on disposable income is making consumers more value-led and spend-conscious. As a result, keeping The National Lottery top of mind becomes more challenging.

#### Macroeconomic Environment

**Camelot is unable to respond to uncertain macroeconomic conditions (such as increasing fuel, energy and food costs, rising interest rates and low consumer confidence) impacting players' disposable income, as well as placing cost pressures on the business. This could result in lower sales and returns to Good Causes, and decreased financial performance by the company.**

Significant economic headwinds remain. Economic forecasts for 2023 anticipate GDP to remain either flat or to see a slight decline. The outlook remains challenging, as pressure on disposable income persists and is expected to grow further as water companies increase their rates, home-owners face increased mortgage costs and fixed rate mortgages come to an end.

## STRATEGIC REPORT (CONTINUED)

### Risks, Uncertainties and Opportunities (continued)

#### Mitigation and Controls (continued)

##### Macroeconomic Environment (continued)

This pressure on disposable income is increasingly likely to exacerbate competitive intensity, with The National Lottery's share of marketing 'voice' coming under increased pressure from rising media spend from direct lottery competitors and the indirect wider gaming and gambling market. Cash flow forecasts are based on the Company's econometric modelling and recognise the significant degree of uncertainty in the economic outlook.

The risk of an increasing number of players facing economic hardship will sharpen the focus of the spotlight on healthy play and affordability.

##### Retailer Environment

*As retail remains a critical channel, failure to maintain standards, advocacy and support for The National Lottery across the retailer estate could lead to poor in-store execution, lack of confidence and poor support for The National Lottery brand. Camelot also needs to be agile, mindful and able to adapt to the changing retail environment.*

There is clear evidence that the macro context remained challenging for our retailers and shoppers, with ongoing extensive inflationary pressures causing shoppers to reduce volumes, switch to own label products and/or switch to discounters.

The Company's focus remains on excellent in-store standards to make The National Lottery unmissable across the retail estate.

##### Digital Channels

*The failure to maintain a fit-for-purpose digital platform could lead to poor customer engagement and loss of sales. In addition, strong commercial performance achieved through the delivery of the Company's digital strategy may not be maintained, which could lead to reduced customer satisfaction, and lost sales and returns to Good Causes.*

The Company closely monitors the performance and capacity of its digital channels, as well as delivering key digital projects and continuous improvement initiatives to enhance the stability of the platform and improve customer engagement. For example, email personalisation has enabled new onboarding and lapsing programmes to improve overall player satisfaction and retention rates.

##### Technology/Systems

*As Camelot moves towards the end of the current licence period, there is a risk associated with a number of systems which are nearing the end of life. Additionally, there is a risk to the information systems estate that, as we near the end of the licence term, systems may no longer be fit for purpose and could lead to a failure to execute and deliver an effective technical solution.*

Licence Condition 5.9 requires Camelot to maintain all licensee assets to ensure that they are adequately supported and have a life expectancy of two years from the end of the third licence. The Company maintains a secure, fit-for-purpose technology solution to enable employees to work effectively. In continuing to provide operational integrity to the end of the licence and for technology required beyond the end of the licence, the ongoing management of end-of-life technology is essential, particularly components for the key gaming and corporate systems.

The Company regularly evaluates the adequacy of its infrastructure and IT security controls, tests its contingency and recovery processes, and undertakes employee awareness and training. Controls testing and security patching around core systems is also performed regularly. The Company continues to invest heavily in safeguarding IT infrastructure, with the security of player information and funds being a key priority.

### Risks, Uncertainties and Opportunities (continued)

#### Mitigation and Controls (continued)

##### InfoSec/Cyber

*Unauthorised access to Camelot's systems or data, from either an external or internal source, could result in unauthorised access to personal or financial data, gaming systems or commercially sensitive information and/or service disruption due to the loss/unavailability of key operational systems; or a loss of integrity of gaming systems, or gaming, financial, personal or other data. This could lead to reputational and/or commercial damage, and potential regulatory penalties.*

The Company complies with the ISO 27001 Information Security Standard and World Lottery Association Standards. Similar to other organisations, it continuously monitors the cyber landscape, and assesses and deals with emerging threats. It continues to invest in its Information Security Team, and in raising cyber risk awareness across its business and with its partners.

Work on optimising the Company's security culture and increasing colleague awareness of security risks has continued this year, building further on the focus in this area.

The Strategic Report was approved by the Board of Directors on 22 June 2023 and was signed on its behalf by:



**Sir Keith Mills GBE DL**  
Chair

Camelot UK Lotteries Limited  
Company Number: 02822203