

DIRECTORS' REPORT

The directors present their report, together with the audited financial statements of Camelot UK Lotteries Limited (the 'Company'), for the year ended 31 March 2021.

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

Principal Activities

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

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

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

The Company expects to pursue this principal activity until the end of the current third licence. As at the date of this Report, the rules of the fourth licence competition prevent the Company from commenting publicly on any interest it may have in the competition. The Company's performance and outlook are discussed in the Strategic Report set out on pages 166 to 179 as permitted under s414C(11).

Shareholdings

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

	Number of 'A' shares	Number of 'C' preference shares	Total % holding of shares
Premier Lotteries UK Limited	1000	3	99.3%
Fourmoront Corporation	–	7	0.7%

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

The Company's ultimate shareholder is Ontario Teachers' Pension Plan Board (Teachers').

Directors

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

Chairman

Sir Hugh Robertson KCMG PC DL

Executive Directors

Nigel Railton

Clare Swindell

Independent Non-Executive Directors

Robert Walker

Rob Rowley

Jennelle Tilling

Gill Whitehead

Non-Executive Directors

Jane Rowe

Nick Jansa (appointed 6 May 2021)

Alternate Directors

Ilya Kachko (alternate to Jane Rowe)

Stefano Santarelli (alternate to Jane Rowe)

(resigned 30 April 2021)

Company Secretary

John Dillon

Insurance for Directors and Officers

As permitted by the Articles of Association, the directors have the benefit of an indemnity which is a qualifying third-party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The Company also purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of itself and its directors.

Going Concern

Management has prepared detailed budgets and cash flow forecasts which support the appropriateness of the going concern assumption. Given the unprecedented economic environment due to the global Covid-19 pandemic, these budgets and cash flow forecasts have been evaluated and reviewed in significant detail.

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

Therefore, after making appropriate enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for at least one year from the date that the financial statements are signed.

For this reason, they continue to adopt the going concern basis in preparing the financial statements.

DIRECTORS' REPORT (CONTINUED)

Viability Assessment

Taking account of the Company's current position and principal risks, the directors have assessed the prospects of the Company for the purposes of provision 31 of the UK Corporate Governance Code over the next two years and six months. Following the further extension of the third licence in May 2020, the Company's licence to operate The National Lottery is expected to expire on 31 July 2023. The two year, six-month assessment period covers until 30 September 2023, which includes the finalisation and settlement of cash flows relating to the end of the third licence. This is considered by the directors to be an appropriate period of assessment.

There is inherent uncertainty in planning for the next two and a half years, given that the outcome of the fourth licence competition process is unknown, as are the medium and long-term impacts of the Covid-19 global pandemic on the Company's performance. However, due to the strong foundations that the Company has put in place over the last four years across The National Lottery's games, channels and brand – combined with its ability to adapt quickly – the Company's business model has proved to be strong and resilient, and the forecasts reflect a resilient sales performance in line with underlying marketing and capital investment support. Profits and cash generated are in line with sales.

The previous Board-approved two-year strategy (covering until 2021/22) has been reviewed in light of Covid-19 and extrapolated for the final years of the licence to reflect an end-of-licence scenario and to include all cash flows relating to completing the third licence commitments.

The Company is operating comfortably within the loan covenants of interest cover and gearing ratios, and the directors consider that this will continue over the review period.

The Company's Revolving Credit Facility (RCF) of £55.0m was extended in March 2021 and is only due to expire on 31 October 2022. The amount drawn down under this facility at 31 March 2021 was £nil (2020: £35.0m).

A number of sensitivities were run to stress test the two-and-a-half-year cash flow forecasts and, even in downside scenarios, the Company remains comfortably within its loan covenants. The Company's covenants are based on Earnings before Interest, Tax, Depreciation, and

Amortisation (EBITDA) pre-IFRS 16, which would have to fall by circa 50% from their current level across the two-and-a-half-year period for this covenant to be breached. This is considered highly unlikely. The two-and-a-half-year forecast also shows only insignificant net interest charges and, therefore, interest cover is not expected to breach the covenant of 2.0.

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

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

Among the identified key risks are player engagement, key supplier/partnership relationships, regulatory environment, player protection, people, retailer environment, technology/systems, InfoSec/cyber and digital channels. The Company continues to invest heavily in safeguarding IT infrastructure, with the security of player information and funds being a key priority. The Chairman of the Committee reports the proceedings of the Committee to the full Board, and copies of minutes of the Committee are distributed to all members of the Board who are not Committee members. Revocation of the Company's licence to operate The National Lottery would clearly be catastrophic and the Company is very clearly focused on mitigating the risks of committing any licence breach which could form the basis of such revocation.

Taking into account the Company's performance, the existence of the Company's licence to operate The National Lottery until 31 July 2023, the existence of the business strategy, and the principal risks and uncertainties facing the Company, the directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the two-and-a-half-year period ending 30 September 2023 to cover the complete period of the third licence to run The National Lottery.

Corporate Governance

The Report on Corporate Governance is set out on pages 188 to 198.

Streamlined Energy and Carbon Reporting

The Company's streamlined energy and carbon reporting is set out in the "Environmental Impact" section on pages 137 to 139 and is included in this Directors' Report by cross-reference.

Research

To secure the long-term success of The National Lottery and to ensure continued sales growth alongside increasing returns to Good Causes, the Company has continued to spend on research during the year. The Company's spend totalled £4.4m in 2021 (2020: £7.2m), primarily in the area of brand and market research.

Employees

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

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

The Company's Employee Forum is sponsored by a member of the Executive Team and extends across all employees in Camelot UK Lotteries Limited. It continues to be consulted on all significant policy proposals and initiatives affecting employees and, in turn, gathers group-wide reactions to such proposals, as well as giving regular feedback on other employee matters. One of the non-executive Board members also has special responsibility for oversight of matters relating to the Company's staff.

The Company believes that delivering consumer and player satisfaction is key to its success, and strives to reward the contribution made by motivated and high-performing staff. The main reward mechanism for doing this is via a performance-related annual bonus scheme.

For 2020/21, bonuses will be paid on three key performance criteria – sales, returns to Good Causes and profitability, each underpinned by operational integrity – with a fourth element awarded based on performance against objectives for senior management. When reflecting on-target performance, these bonuses start from 5% of base salary, increasing for senior management.

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

Employee Engagement

Camelot has an extensive and well-established structure for communicating and listening to its employees through a variety of channels, including internal publications, Company-wide emails, webcasts, all-employee meetings, the Company's intranet site and regular engagement surveys. These channels are also the medium through which the Company communicates economic and financial factors which impact its performance. The Company achieved a '3 Star' rating in the Best Large Companies Awards 2021, which means Camelot is an 'extraordinary' company to work for within its definition and 10th in the rankings. It was also the only large company to receive a special wellbeing award, celebrating the commitment that it has made to looking after its people. In addition, the Company achieved upper quartile engagement scores in both its shorter 'pulse' survey earlier in the year and in its most recent annual engagement survey, which was completed in April 2021.

During 2020/21, Camelot continued to:

- provide employees systematically with information on matters of concern to them, such as trading updates, commercial strategy and progress updates, as well as inviting representatives from organisations who have received funding from Good Causes to share their stories to ensure employees are connected to the Company's purpose. There continues to be a regular cycle of Company-wide communication through 'All Together' briefings, 'Getting to Know' sessions, the intranet, and monthly leadership newsletters for cascade;

DIRECTORS' REPORT (CONTINUED)

Employee Engagement (continued)

- consult employees as a whole and via the Employee Forum on a bi-monthly – and then bi-weekly – basis so that their views can be taken into account in making decisions which are likely to affect their interests, including the outcomes of employee surveys, input to people policies (eg diversity and inclusion), input to the wellness strategy, and input to how organisational changes are implemented;
- encourage the involvement of employees in Camelot's performance through the all-employee annual bonus scheme, ensuring quarterly performance conversations take place with individuals, and regular briefings are given on trading performance and progress against the annual plan;
- provide a listening strategy through regular engagement surveys and conversations with the Employee Forum; and
- achieve a common awareness on the part of all employees of the financial and economic factors affecting the performance of Camelot through 'All Together' sessions, and Leadership Team monthly cascades.

Board Members are actively involved in the Company's engagement strategy. During the year, the Chairman took part in a 'Getting to Know' event (interviewed by an employee in front of a live audience) and featured in our fortnightly update videos for staff, which were introduced to support virtual working, and as part of our 'All Together' briefings. He was also involved in our Women's History Month celebrations, during which he interviewed Georgie Harland, Team GB's Chef de Mission, the first woman to ever hold the role, and which had very positive feedback. Meanwhile, the CEO has led quarterly 'All Together' sessions and keeps the whole Company informed about business performance through the fortnightly video updates videos, while Jennelle Tilling conducted a fireside chat with the Employee Forum and has regular check-ins with the Chair of the Forum.

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

Business Relationships

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

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

As noted in the Chairman's Statement and the Chief Executive Officer's Review, the Board and Executive management have regular engagement with their counterparts at the Gambling Commission and with the National Lottery distribution partners who distribute Good Causes funding. While Covid-19 restrictions limited opportunities for face-to-face engagement during the year, The Company continued this important work through virtual means.

Executive management has a regular programme of engagement across the retailer base (from large multiple retailers through to independent, owner-managed businesses), which is monitored and assessed by the Board through its regular review of the Annual Business Plan. Suppliers are critical to the success of the Company and, for all of the major suppliers, there is a dedicated Camelot relationship manager. They work closely with the supplier to ensure not only the delivery of their product/service, but that there is a strong working relationship with regular dialogue that allows both parties to operate fairly and transparently with each other.

Suppliers

The Company's policy is to pay all fully-approved supplier invoices within 30 days after the end of the month in which the invoice is received. Camelot has paid 96% (2020: 89%) of its supplier invoices in line with the agreed terms in the last six months of the financial year and, on average, invoices are being paid within 27 days (2020: 34 days) from date of receipt. The Company's latest figures show that only 1% (2020: 3%) of supplier invoices are paid in excess of 60 days, with 74% (2020: 64%) being paid in 30 days or less.

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

Financial Risk Management

The Company has a clear and specific investment policy which is followed for all cash deposits placed to mitigate against short and long-term cash flow risk. At the end of March 2020, with the growing uncertainty around the pandemic, the Company drew down £35.0m of its RCF for a period of six months. These funds were held on deposit throughout the six months and repaid in full in September 2020. At 31 March 2021, the RCF facility remains undrawn.

The Company continually monitors its banking facilities, as well as regularly forecasting and reviewing its cash flow requirements. For the next financial year, the cash flow forecasts anticipate surplus cash levels and that the RCF facility will remain undrawn, and that sufficient headroom is maintained and that all liabilities are fully met. Camelot has a contingency financing arrangement with its ultimate controlling party, Teachers', which, in aggregate with its parent company Premier Lotteries UK Limited, makes further funding of £30.0m available.

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

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

Related Party Transactions

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

Independent Auditors

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

Dividends

As detailed in note 8, total dividends paid in the year under review were £47.4m (2020: £80.2m), of which £47.4m (2020: £80.1m) was paid to the Company's parent company, Premier Lotteries UK Limited, during the year and £7,000 to Fourmoront Corporation (2020: £7,000). The Company does not recommend payment of a final dividend. As disclosed in note 29, a dividend was paid to PLUK in April 2021.

Donations

During the year, no political donations were made (2020: nil).

Post-Balance Sheet Events

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

DIRECTORS' REPORT (CONTINUED)

Statement of Directors' Responsibilities in Respect of the Financial Statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have prepared the financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. The Company has also prepared the financial statements in accordance with international financial reporting standards (IFRS) adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company, and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

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

The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company, and enable them to ensure that the financial statements comply with the Companies Act 2006.

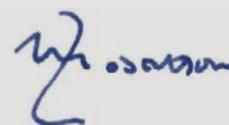
In addition, the directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' Confirmations

The directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

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

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



On behalf of the Board

Sir Hugh Robertson KCMG PC DL

Chairman

24 June 2021