

## 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. 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

At 31 March 2021, the Board comprised eight members: the Chairman, four additional independent non-executive directors (one of whom acts as the Deputy Chairman and Senior Independent Director), one non-executive director (an officer of Teachers') and two executive directors (the Chief Executive Officer and the Chief Financial Officer).

There is a clear delineation of responsibility between the Chairman and the Chief Executive Officer, which is set out formally in a written description of the role of the Board and written descriptions for the Chairman's and the Chief Executive Officer's roles (and also for the roles of the Deputy Chairman/Senior Independent Director and the independent non-executive directors).

The Chairman 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 Chief Executive Officer maintains day-to-day management responsibility for the Company's operations, implementing Company strategies and policies agreed by the Board.

Jane Rowe (Executive Managing Director and head of Teachers' Equities department) remains on the Board and ensures that Board members (and, in particular, the independent non-executive directors) are regularly informed of Teachers' views about the Company, and that Teachers' is kept informed about the Company to the extent Teachers' requires. Nick Jansa (Teachers' Senior Managing Director, EMEA) was appointed to the Board on 6 May 2021.

### Board of Directors (continued)

During the year, the Board approved the appointment of Jennelle Tilling as a Trustee of the Guide Dogs for the Blind Association, and of Gill Whitehead as the Chair of the Audit Committee of Informa PLC. The Board was satisfied that those additional commitments do not prevent either director from spending sufficient time on matters relating to Camelot, and that they would provide each director with a welcome opportunity to broaden further their perspective and experience of different boards and businesses and, ultimately, to enhance their skills for Camelot's benefit.

Specific oversight of various aspects of the Company's activities has been allocated by the Board to different Board members (including external relations, operations, finance, risk and audit, digital and technology, marketing, engagement with the Company's workforce and healthy play).

Regular Board meetings were held during the year under review. Owing to the impact of the restrictions resulting from the Covid-19 pandemic, the Board's programme of holding meetings off-site at locations around the UK was suspended.

Board meetings follow a formal agenda which includes regular reports from the Chief Executive Officer, matters for which the Board's approval is required (including, in particular, the Company's strategic plan and annual budget, and business cases for new games or game changes), '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 166 to 179.

At the beginning of each Board meeting, the Chairman meets with the non-executive directors for a private session in the absence of the Chief Executive Officer, the Chief Financial Officer and other senior management; and, at the end of each meeting, a further private session is usually held both with and without the Chief Executive Officer and Chief Financial Officer.

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 Chairman.

During the year, informal update sessions (supported by written papers where appropriate) were also held by video conference for Board members in months in which no formal Board meeting took place. Beginning at the end of March 2020, additional update sessions took place (initially every two weeks) to keep Board members informed of the impact of the Covid-19 pandemic on the Company's operations.

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 his or her 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:

## REPORT ON CORPORATE GOVERNANCE (CONTINUED)

### Board of Directors (continued)

	Board (6 meetings) Number attended of meetings held while a director	Audit, Risk and Security Committee (4 meetings) Number attended of meetings held while a director	Remuneration Committee (5 meetings) Number attended of meetings held while a director	Nominations Committee (4 meetings) Number attended of meetings held while a director
Nigel Railton	6/6	<sup>1</sup> (4/4)	<sup>1</sup> (5/5)	<sup>1</sup> (4/4)
Sir Hugh Robertson KCMG PC DL	6/6	<sup>1</sup> (4/4)	<sup>1</sup> (5/5)	4/4
Jane Rowe	6/6 <sup>2</sup>	4/4	5/5 <sup>2</sup>	4/4 <sup>2</sup>
Rob Rowley	6/6	4/4	<sup>1</sup> (5/5)	<sup>1</sup> (3/4)
Clare Swindell	6/6	<sup>1</sup> (4/4)	<sup>1</sup> (5/5)	<sup>1</sup> (0/4)
Jennelle Tilling	6/6	<sup>1</sup> (4/4)	<sup>1</sup> (5/5)	4/4
Robert Walker	6/6	3/4	5/5	<sup>1</sup> (3/4)
Gill Whitehead	5/6	4/4	<sup>1</sup> (4/5)	<sup>1</sup> (3/4)

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. The table does not include reference to the Fourth Licence Competition Committee (more information on which can be found on page 195).

<sup>1</sup>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.

<sup>2</sup>Owing to restrictions on Ms Rowe's ability to attend formal meetings while located in Canada during the year under review, all meetings were attended by Stefano Santarelli (a member of Teachers' staff) as Ms Rowe's alternate. Informal sessions took place before each Board meeting to ensure that senior management and the Chairman and senior management were aware of Teachers' perspective and views.

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**

Members: **Rob Rowley, Jane Rowe, Robert Walker, Gill Whitehead**

#### Usual Attendees

The Chief Executive Officer and other functional managers (including the Chief Financial Officer, the Deputy Chief Financial Officer and the Director of Business Assurance) for relevant sections of the meeting, and representatives of the Company's external auditors and Teachers'. The composition and independence of the Board is discussed on page 188.

In addition to the broad executive and non-executive business experience of each of the members of the Committee described in their biographies on page pages 156 to 157, Jane Rowe holds a Bachelor of Commerce (Honours) degree from Memorial University, Newfoundland, an MBA from York University's Schulich School of Business and a ICD.D certification from the Institute of Corporate Directors in Toronto; Rob Rowley is a Fellow of the Institute of Management Accountants, and holds a BSc in Economics from the University of Southampton and an MBA from Cranfield University; and Gill Whitehead holds a BSc (Honours) degree in Economics and Econometrics from the University of Nottingham, and is a Fellow of the Institute of Chartered Accountants of England and Wales.

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 standards of internal control within the Company, and, in particular, of the 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.

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 Director of Business Assurance, 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 every seven years and the current partner is in his fourth year. The external auditors attend all Committee meetings, of which there were four in the financial year ended 31 March 2021, and the Committee assesses their effectiveness through this regular interaction. In the event that the Company were to be awarded the fourth licence, the Committee has determined that – subject to any truly exceptional change in circumstances in the meantime – the provision of external audit services would be put out to tender for the subsequent financial year after the outcome of the bid is known, and PwC will not be invited to retender.

### 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 IFRS requirements.

#### Provisions

In accounting for provisions, judgement is required to assess the probability of outcome, maturity and level of risk. Judgement and estimation is 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.

## REPORT ON CORPORATE GOVERNANCE (CONTINUED)

### Reporting of Significant Issues (continued)

#### Provisions (continued)

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, as well as those provisions held at 31 March 2021, in particular those relating to long-term incentive plans. 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 significant investment 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.

### 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 change projects and programmes, as well as other principal risks including threat of cyber attack, player protection and the retailer environment etc. The Committee discusses significant issues with management, both independently and as a result of external audit procedures.

### 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 Chairman of the Committee immediately that they are identified.

### Remuneration Committee

Chair: **Jane Rowe**

Members: **Jane Rowe, Robert Walker**

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 Chief Executive Officer, independent non-executive directors and employees in management with a senior role in the Company. 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.

### Remuneration Committee (continued)

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 five times during the year under review.

The Remuneration Committee, which includes representation by the shareholders, reviewed and approved the annual bonus arrangements for the financial year ended 31 March 2022, with executive directors' and senior managers' performance metrics based on sales, returns to Good Causes, and profitability, each underpinned by 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.

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. Executive directors and senior management have an additional metric of performance against key objectives in the Annual Business Plan, and a higher weighting is placed on returns to Good Causes performance, aligning performance with purpose. 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 Remuneration 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. Discretion is allowed for in the remuneration policies and structures, and the Committee considered senior management exit arrangements and applied an element of discretion to reflect performance. The scheme has operated as intended in 2021.

Willis Towers Watson continues as an advisor to the Company (but not, during this financial year, directly to the Remuneration Committee) and, in the course of the year, advised the Company in relation to staff remuneration 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**

Members: **Sir Hugh Robertson KCMG PC DL, Jane Rowe, Jennelle Tilling**

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 shareholders 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 is comprised exclusively of non-executive directors, under the chairmanship of the Chairman of the Board.

During the financial year ended 31 March 2021, the Committee met four times. Its work centred on Board and senior management succession planning, which are standing items on the Committee's meeting agenda.

## REPORT ON CORPORATE GOVERNANCE (CONTINUED)

### Nominations Committee (continued)

Consideration of Board succession provided 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 Teachers', the Chief Executive Officer 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.

Throughout the 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, and (following senior management talent reviews) where further development of potential successors needs to be undertaken. 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 during the year 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 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. 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. The policy is directly linked to one of the pillars of Camelot's strategy – to create an environment that allows Camelot to attract and retain talent, enabling that talent to thrive and promoting high performance, understanding Camelot's talent and organisational capability and addressing any gaps and development needs, and further improving Camelot's integrity and operational capability. All activities in the 2020/21 Annual Business Plan associated with this strategic pillar were completed, and associated key performance indicators were substantially met.

The Committee also considered and recommended to the Board the appointment of the Chief Financial Officer to the Board, and the approval of the appointment of the Chief Executive Officer and one of the independent non-executive directors to other external boards.

As at 24 June 2021, 44% (four of the nine members) of the Board are female, compared with 14% (one of seven) as at 1 April 2018, 38% (three of eight) as at 27 June 2019 and 50% (four of eight) as at 25 June 2020. Similarly, as at 24 June 2021, 25% (three of the 12 members) of the Executive Team are female, compared with 23% (three of 13) as at 1 April 2018, 27% (three of 11) as at 27 June 2019 and 25% (three of 12) as at 25 June 2020.

The gender balance of those in senior management (ie the Executive Team and their direct reports from grades 3 to 5) was 67%/33% male/female as at 5 May 2021, consistent with 64%/36% as at 1 April 2018, 64%/36% as at 30 May 2019 and 64%/36% as at 11 May 2020.

### Fourth Licence Competition Committee

During the financial year ended 31 March 2021, the Board established an additional Committee of the Board to supervise all aspects of the Company's consideration of, preparation for and conduct of the Company's participation in the Fourth Licence Competition, and to make recommendations to the Board concerning those matters. Given the confidential nature of the Fourth Licence Competition process, no further information is provided here.

### Board Effectiveness Review

In February to March 2021, an internally-facilitated review of the Board and its committees was undertaken and was discussed on a one-to-one basis between the Chairman and individual directors, and also in private session of the Board. The Senior Independent Director, Robert Walker, led a review by the directors of the performance of the Chairman, which Mr Walker discussed with the Chairman. The Board agreed that good progress had continued to be made by Chairman's ongoing focus in particular on ensuring that the agenda and supporting papers for Board meetings are appropriate in both content and length, and that directors receive appropriate, timely and concise updates where otherwise required outside the normal cycle of Board meetings. During the Covid-19 pandemic, there had also been pre-Board meeting sessions with those Teachers' staff located in Canada who were unable to join the formal Board meetings, which had helped to ensure that Teachers' perspectives were shared effectively with the Board. The Chairman encouraged all Board members to raise any issues they might have as to the effectiveness of the Board and its Committees as they arose.

### Independent Non-Executive Directors

The independent non-executive directors are independent of both management and the shareholders, and are initially appointed for a three-year term. Thereafter, while not automatic, 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 Teachers' (note 1). The Company maintains close links with Teachers', which has representation on the Board, and also has direct lines of access to the Chairman, the Chief Executive Officer, 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 Director of Business Assurance 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.

Business Assurance provides independent and objective assessment to Camelot to support its strategic aims, through improving the integrity and effectiveness of the organisation's risk management, control, compliance and governance processes.

Business Assurance comprises Internal Audit, Compliance and Risk & Insurance functions, and is led by the Director of Business Assurance, who reports independently to the Chair of the Audit, Risk and Security Committee.

## REPORT ON CORPORATE GOVERNANCE (CONTINUED)

### Risk Management and Internal Control (continued)

#### Managing Risks (continued)

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 with Gambling Commission licensing requirements.

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.

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

#### Roles and Responsibilities

##### Board of Directors

The Board has carried out a robust assessment of Camelot's emerging and principal risks during 2020/21, by means of the governance described below.

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

At each Board meeting following an Audit, Risk and Security Committee meeting, the Chair of the Committee presents key risks to the Board, which reviews how these risks are being controlled and monitored by Management.

##### Audit Risk and Security Committee (ARSC)

Reviewing management's identification of the significant risks (principal risks) of the Company in accordance with the ERM policy, and the controls in place and planned to mitigate exposures.

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.

#### The 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 prior to each ARSC meeting to review and assess the Company's key risks for communication to the Executive and then ARSC. This Committee also provides a forum for sharing strategic decisions that could impact risk management, and for improving the overall Company control environment. Beginning in April 2021, the CRC also has begun to meet monthly in order to focus on compliance and risk management at a more operational level.

#### 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. The five 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 on the next page). 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)

#### Roles and Responsibilities (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 departments 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 internal control over financial reporting.

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 shareholders. More details of how Camelot consults with its stakeholders are set out in the "Doing Business Responsibly" section on pages 114 to 141 and in the section 172 statement on pages 172 to 175.

In adopting the principles and practice of the Code, the Board has taken account of the fact that the Company's principal 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.

**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.

## REPORT ON CORPORATE GOVERNANCE (CONTINUED)

### Risk Management and Internal Control (continued)

**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.

**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 2020/21, the Remuneration Committee comprised two non-executive directors, one of whom is an employee of Teachers' and therefore is not deemed to be independent under the terms of the Code (though they are 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.
- The Audit, Risk and Security Committee comprises three independent non-executive directors and one non-executive director who is not deemed to be independent under the terms of the Code; she is, however, independent of management.
- Neither of the executive directors nor any other member of Camelot staff is a member of these committees. This structure 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.

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

- the Commission must be promptly notified by the Chairman, 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 Chairman has 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 year under review and a subsequent call in April 2021 (both also attended by Commission officials) to discuss performance and National Lottery support for Covid-related initiatives.