

## STRATEGIC REPORT

### The directors present the Strategic Report of Camelot UK Lotteries Limited (the 'Company' or 'Camelot') for the year ended 31 March 2021.

#### Business Review

Camelot delivered a fourth successive year of sales growth, with gross ticket sales growing by £468.8m (6%) to £8,373.9m. Returns to Good Causes were also in growth versus the prior year, increasing by £56.8m (3.3%) to £1,786.8m from ticket sales alone. Growth over the year was primarily driven by digital channel growth, especially across online Instant Win Games and two exceptional EuroMillions Super Minimum Jackpot Guarantee ("SMJG") roll series. Digital growth was accelerated in the year due to Covid-19, which saw restrictions on players' mobility and access to The National Lottery retail outlets, and led to a shift of players to our online platforms.

During the year, Camelot successfully delivered a number of key initiatives, in line with its strategic plan which was adapted with the advent of Covid-19, including:

- further adaptations of the 'Your Numbers Make Amazing Happen' brand campaign, driving relevancy during the crisis, including campaigns highlighting:
  - the initial £300m National Lottery Community Fund relief package (April);
  - the upgraded £600m cross-distributor relief package (May); and
  - the £30m a week raised for Good Causes (September), including a joint activation with the wider National Lottery family celebrating those who had helped their communities during the pandemic;
- a new Lotto communications campaign bringing back the iconic "It could be you" strapline; and
- the launch of the Lotto 'Must Be Won' Rolldown mechanic enhancement (November).

Following the significant investment in the Retail Sales Team made in the previous two years, Camelot continued to focus on delivering excellence in retail and, as a result, grew retailer satisfaction and maintained high levels of 'in-store' standards, despite the field sales team having to adapt to working from home during the national

lockdowns. The Company continued its rollout into new retail distribution channels (Aldi and Iceland), which, although having been delayed marginally due to Covid-19, remain a high priority for Camelot and are on track for completion by the end of July 2021. As a result of the pandemic, the retail channel saw a decline year on year, with total in-store sales of £4,864.4m (2020: £5,447.6m), a decrease of £583.2m. More positively, weekly retail sales recovered in the later part of the year and are now almost back to pre-Covid levels.

The Company benefited from significant growth across its digital channels, particularly with many players migrating from retail as a result of Covid-19, with total sales growing by £1,052.0m (42.8%) to a record £3,509.5m (2020: £2,457.5m). The National Lottery now has an active player base of more than 9.7 million players (2020: 7.6 million), with average weekly players growing by 54%. As part of the growth over the year, Camelot grew mobile sales to an all-time high of £2,481.9m (2020: £1,605.5m), with sales through mobile web and apps growing by 54%, and delivering another year of record-breaking sales levels. Underpinning the mobile app growth was the launch of a new app home screen with personalisation, leveraging machine learning to serve more relevant games to players based on their play behaviour.

This year's sales have also been positively impacted by record sales of £3,683.2m across The National Lottery's range of in-store Scratchcards and online Instant Win Games (2020: £3,368.0m). This is also despite our decisions to remove the £10 price point in the Company's Scratchcard range in September 2019 and the £10 price point in the Company's Instant Win Game range in July 2020. These decisions to remove games at the £10 price point were taken as precautionary measures after healthy play research suggested that these games may have over-indexed among problem gamblers. This action underlines Camelot's commitment to healthy play and ensuring that The National Lottery is the safest place to play.

#### Business Review (continued)

This year's sales results include the impact of the Covid-19 pandemic, covering a period of uncertainty, with the economy, and many National Lottery players, benefiting from government support initiatives to reduce the impact of the pandemic. Thanks to the solid foundations that Camelot has put in place over the last four years and the speed at which it has been able to respond to the constantly evolving situation, sales exceeded original expectations at the onset of the pandemic, proving the Company's resilience and ability to adapt and adjust. Given that the pandemic was still ongoing at the end of the financial year, Camelot continues to prepare its operations for further disruption and change in 2021/22 but, given its proven track record in this financial year, maintains a positive outlook, while recognising the inherent uncertainty surrounding its future performance from the ongoing impacts of the pandemic and the timing of the removal of the various government measures which have supported the economy through the pandemic in 2020/21 and into 2021/22.

#### Strategy and Outlook

Camelot's mission is to change lives – of the winners created through its games, and the people and projects supported by National Lottery funding. 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.

However, the Company's strategy aims to achieve objectives beyond sales growth and maximising returns to society. Camelot is a socially responsible organisation, maintaining high standards of player protection and corporate governance, as well as safeguarding its position as one of the most cost-efficient major lottery operators in Europe. The Company continues to deliver against its strategic plan across its three key pillars as follows:

##### 1. Delivering Brand-led Growth

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

Marketing will continue to play an important role in maintaining the relevance of National Lottery games to the people of the UK. In 2020/21, Camelot continued to deploy its brand-led marketing approach with its 'Your Numbers Make Amazing Happen' campaign, which aims to highlight the positive impact of The National Lottery on all facets of society.

Camelot also continued to work closely with the National Lottery distribution bodies and other key partners to deliver a clear 'One National Lottery' brand, which more effectively communicates the uniqueness of The National Lottery, raises awareness of the extraordinary good that it does and recognises the all-important contribution of players.

To support its strategy, Camelot has developed a view on the optimum level of marketing required to support The National Lottery brand and portfolio of games. 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 £59.2m (2020: £56.6m). Further marketing spend by Camelot was £104.7m (2020: £83.8m).

###### b) Improving its range of games to create an optimised portfolio of games that offers something for everyone

The Company maintained its longstanding focus on continuing to innovate and enhance across its portfolio of games. As a result, it succeeded in growing sales of all six of its draw-based games in 2020/21.

The increase was primarily driven by the Company's success in increasing Lotto sales, with November's enhancement of an additional cash prize of £5 for players for matching two main numbers in a 'Must Be Won' Rolldown draw proving very popular and driving player excitement.

Set For Life, the most recent addition to the range of National Lottery draw-based games, is also continuing to perform very strongly and exceeding sales expectations, while changes that the Company made to offer people greater choice through a regularly refreshed selection of differently priced products with diverse themes resulted in record sales across The National Lottery's range of in-store Scratchcards and online Instant Win Games.

###### c) Continuing to invest in improving standards and engagement in retail, as well as expanding into new distribution channels in which people are now shopping

Camelot's significant investment in retail, announced in 2018/19, will continue as the Company seeks to build on the further improvements in retail standards and engagement that it has seen in the past three years. As the retail landscape changes, Camelot will continue to seek to expand into new distribution channels to keep pace with these changes, including in discounters and at self-checkout terminals.

## STRATEGIC REPORT (CONTINUED)

### Strategy and Outlook (continued)

#### d) Continuing to improve its digital services to give players an even better mobile and online experience

Digital remains an important source of growth, and Camelot has invested in – and will continue to invest in – developing a strong mobile platform, combined with enhancing and developing its marketing activities and capabilities for mobile and online players. The Company will also continue to build on the improvements it has made in the year to its customers' journey and experience, and will continue to further upgrade its customer relationship management systems.

#### 2. Putting Players at the Heart

Camelot's objectives of promoting healthy play and ensuring that The National Lottery is the safest place to play are critical to its overall business strategy. This year, the Company's activity has focused on:

- conducting an internal review of spend and play limits, which has resulted in positive changes being implemented. These included reducing the maximum weekly spend limit from £750 to £500, bringing down default session time reminders from two hours to one hour, and lowering the minimum wallet load amount from £10 to £5. The Company will also be implementing further limit reductions for those players identified as at-risk in 2021, and will continue to review the impact that these changes have on player behaviour;
- reviewing effective age-gating for its products, providing confidence that young people are not being exposed to games which are not suitable for them. Following the government's decision in December 2020 to raise the minimum age to play National Lottery games from 16 to 18 by 1 October 2021, the Company has carried out a major programme of work to implement all of the necessary changes across all its channels as quickly as possible, while ensuring that it maintained the very high standards demanded of The National Lottery. As a result of the excellent progress made by its dedicated project team, the age to play all National Lottery games changed to 18+ on 22 April 2021, a full five months ahead of the change in legislation; and

- behavioural analytics, which provide a powerful tool to help look at certain player behaviours and tailor communications to their needs. The Company's 'Know Your Customer' workstream combined insight from its behavioural analytics model, the healthy play terminal printouts in retail, and from looking at players who had hit some of their spend and/or play limits. As a result, new website pop-ups are now visible to players who reach any of their limits, raising awareness of the healthy play tools available and signposting players to the relevant account settings.

The Company believes this approach is having a positive impact on its players. The number and proportion of at-risk players playing via online channels is reducing month-on-month, and retailers have achieved a high percentage pass rate on excessive play knowledge checks, which measure whether they understand what to look for and what to do if they see someone who needs support.

The Company's healthy play communications have driven a significant increase in traffic to the responsible play webpages rising over the year, meaning that players are able to find information and support if they need it.

The Company believes that this approach aligns with the perspective of the Gambling Commission, the National Strategy to Reduce Gambling Harms, 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 requirements:

- continuing to invest in cyber security to maintain the Company's capabilities in the face of evolving threats;
- continuing to invest in the resilience and performance of technology and systems as they reach the end of their lives;
- ongoing improvement in the maturity of the operational processes and control environment, with the continued automation of certain key processes and investment in data management; 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 operating cash flow. In addition, Camelot is required to maintain and report on specific non-financial key performance indicators assessing standards of performance on player accessibility, including terminal sales availability and the service provided to players. Failure to meet these specific non-financial targets can result in a breach of the operating licence. 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 below.

### Financial Performance

#### Gross Ticket Sales

Gross ticket sales for the year ended 31 March 2021 were £8,373.9m (2020: £7,905.1m).

Within this amount, sales for draw-based games totalled £4,690.7m (2020: £4,537.1m), an increase of 3.4%. Growth was delivered through strong Lotto base sales performance, continued growth of Set For Life, and an increase in sales of Instant Win Games following the shift of a proportion of players onto the Company's digital channels.

Sales from Instants games (Scratchcards and Instant Win Games) increased by 9.4% to £3,683.2m (2020: £3,368.0m). Scratchcard sales were impacted by the annualisation of the removal of all games at the £10 price point and Covid-19 related disruption in retail but, despite this, there was only a 2.9% year-on-year sales decline. The 49.7% growth in sales of Instant Win Games was achieved through the continued development of the Company's mobile app offering, improvements to the range of games, increased personalisation and increased traffic to the digital channels due to Covid-19.

Sales in retail were heavily impacted by Covid-19 and, primarily as a result of reduced player mobility and associated footfall, declined 10.7% versus the prior year. Conversely, for the same reasons, digital sales grew this year and as a result, increased as a proportion of overall sales, in line with Camelot's strategy, accounting for 41.9% of all sales (2020: 31.1%). As part of this, sales through mobile web and apps grew by 54%, with a record sales level

achieved across all digital channels, leveraging merchandising, promotions and CRM activities to retain players at an exceptional rate. Camelot operates the world's largest digital lottery in terms of revenue and, with over 9.7 million active registered players, national-lottery.co.uk is one of the top e-commerce sites in the UK.

#### Lottery Duty

Lottery Duty has remained at 12% of sales, and totalled £1,004.9m for the year (2020: £948.6m), surpassing £1bn for the first time in the history of The National Lottery.

#### Prizes

Total prizes increased to £4,854.7m in 2021 (2020: £4,505.0m). This represents 58.0% of sales (2020: 57.0%). Strong performance from Instants games, which offer higher prize payout percentages, contributed to the slight increase year-on-year as a percentage of sales.

In any lottery, there are prizes which remain unclaimed. If National Lottery prizes are not claimed within 180 days of the draw date for draw-based games, 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 locate the winners of 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 1.2% (2020: 1.6%) of sales and totalled £100.1m (2020: £123.1m), the year-on-year decrease predominantly driven by the shift of players to the Company's digital channels where prizes are automatically paid to players and players are known.

#### National Lottery Distribution Fund (NLDF)

The NLDF is the central fund from which the National Lottery distribution bodies draw funds for distribution to Good Causes. In aggregate, the total raised for Good Causes amounted to £1,887.5m, representing 22.5% of sales (2020: £1,853.1m; 23.4%) for the year.

This includes £1,786.8m (2020: £1,730.0m) in returns from ticket sales and other payments due from relevant income, as specified in the operating licence, and a further £100.1m (2020: £123.1m) in unclaimed prizes. This amount has been reduced by £59.2m (2020: £56.6m), 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.

## STRATEGIC REPORT (CONTINUED)

### Financial Performance (continued)

#### National Lottery Distribution Fund (NLDF) (continued)

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 Instant Win Games. 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 are £8.8m (2020: £6.1m), an increase of 44.2%. This is based on an 'adjusted profits' calculation as defined under the third licence.

#### Retailers' and Other Commission

Total sales, validation and other commissions for the year totalled £285.0m, representing 3.3% of total sales (2020: £312.7m; 4.0%). This includes both commission paid to retailers and bank fees paid on interactive sales transactions with the decline being in line with the sales split by channel.

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.

#### Net Income

Net Income for the year was £727.5m, up 0.8% on the prior year (2020: £721.5m), driven by this year's sales performance.

#### Gaming Systems and Data Communication Costs

Gaming systems and data communication costs decreased to £125.6m for the year (2020: £126.2m). 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 £228.8m (2020: £190.8m), and consisted of advertising and marketing expenditure, depreciation, impairment, staff, facilities and all other administrative costs. The increase was driven primarily by increases in marketing spend, which resulted in operating profit of £94.9m, a reduction of £0.8m compared with the prior year.

#### Finance Income and Costs

Net finance income during the year amounted to £0.3m (2020: (£0.7m) net finance cost). Finance income remained materially unchanged at £3.4m in the year (2020: £3.7m), and primarily consists of interest receivable from Premier Lotteries UK Limited on a £26.0m loan (2020: £26.0m). The finance costs of £3.1m decreased from the prior year (2020: £4.4m) due primarily to a reduction of interest costs on leases.

The average yield on investment was approximately 0.08% (2020: 0.54%). Strict controls apply to treasury operations, which are reviewed regularly. The Company's investment 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 £95.2m (2020: £95.0m). Profit after taxation for the financial year was £78.1m, just under 1.0% of gross ticket sales (2020: £78.1m).

#### Taxation

The corporation tax charge of £17.1m for the year (2020: £16.9m) represents an effective tax rate of 18.0% (2020: 17.8%). 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 £48.3m (2020: £47.4m).

### Financial Performance (continued)

#### Dividends

The Company's profit for the financial year was £78.1m (2020: £78.1m), as disclosed on the Statement of Comprehensive Income on page 208. As detailed in note 8, total dividends paid in the year under review were £47.4m (2020: £80.2m), all of which was paid to the Company's parent company, Premier Lotteries UK Limited (PLUK), during the year and £7,000 to Fourmoront Corporation (2020: £7,000). The dividend payment is a financing mechanism to facilitate the term loan repayment from PLUK. As disclosed in note 29, a dividend was paid to PLUK in April 2021.

#### Financial Position at the Year End

The Balance Sheet reflects the continuing financial stability of the business. Net assets were £78.0m as at 31 March 2021 (2020: £47.3m).

The value of property, plant and equipment, right-of-use assets and intangible assets has decreased to £82.8m in the current year (2020: £110.6m). The decrease is due to the amortisation and depreciation of assets as the business approaches the end of the current licence when all of these asset classes will have a net book value of £nil.

Current trade and other receivables have increased to £574.2m from £537.7m in 2020, mainly due to the funds held to fund future prize payments.

The cash and cash equivalents balance of £185.2m is broadly in line with the prior year (2020: £181.4m).

Non-current financial liabilities and borrowings have decreased to £10.5m (2020: £21.5m), representing a reduction of the lease liabilities brought onto the balance sheet when implementing IFRS 16.

Current financial liabilities and borrowings have decreased to £11.3m (2020: £47.7m). This balance represents the current portion of lease liabilities. In the prior year, the balance included £35m of borrowings drawn down under the Company's Revolving Credit Facility, which was repaid in the year.

Current trade and other payables have increased to £762.0m from £732.9m in 2020, due to an increase in prize payment liability driven by the timing of prize claims.

#### 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, 44,863 lottery terminals were in operation across its retail footprint (2020: 44,144).

The Company is committed to delivering new games, developing existing games, including new ways to play, and increasing one-to-one player communications. To meet these commitments, the Company continues to invest significant amounts in technology and in back office systems to support these initiatives and drive operational efficiencies.

Terminal sales availability, a key performance indicator monitored monthly by the Company's regulator, was 99.97% (2020: 99.94%), ahead of the operating licence target of 99.50%. In addition, system availability for playing games on the internet was 99.77% (2020: 99.95%), ahead of the operating licence target of 99.50%.

#### Cash Flows, Cash and Debt

Net cash generated from operations was £137.3m (2020: £198.7m). The decrease was due predominantly to a lower cash impact from movements in working capital than in the prior year, due mainly to the day of the week that the financial year end falls on.

Cash outflows primarily include dividend payments of £47.4m (2020: £80.2m), net taxation-related payments of £22.7m (2020: £24.5m) (including an element for group relief), £16.2m (2020: £15.7m) of investment in property, plant and equipment and intangible assets, and principal lease payments of £12.5m (2020: £16.8m). The closing cash balance was £185.2m (2020: £181.4m).

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.

## STRATEGIC REPORT (CONTINUED)

### Financial Performance (continued)

#### Cash Flows, Cash and Debt (continued)

At 31 March 2021, Camelot had on deposit £10.8m (2020: £10.9m) of funds in a restricted cash trust account as a reserve for the protection of prize winners. Although Camelot cannot currently withdraw these amounts until the end of the third operating licence period, the interest on these accounts accrues to Camelot.

Camelot holds a Surety Bond with HCC International Insurance Company PLC to the value of £21.0m (2020: £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 £55.0m committed Revolving Credit Facility, which was extended in March 2021 and runs until 31 October 2022. The amount drawn down under this facility at 31 March 2021 was £nil (2020: £35.0m).

### 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 2021 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

Ontario Teachers' Pension Plan (OTPP) is Camelot's sole beneficial shareholder.

During 2020/21 (as in previous years), the Directors included among their number senior representatives of OTPP, others of whose staff also attended all 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 its shareholder, which itself fully endorses and supports 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 Chairman, the executive Directors and other members of the senior management team also continued throughout 2020/21 to have regular discussions with OTPP's staff on a variety of matters relating to Camelot's business outside the scope of formal Board activity.

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

OTPP 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 licence to operate The National Lottery – whether or not Camelot were to continue as the operator after that time. However, during 2020/21, 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. That context is reflected in the Directors' going concern and viability statements on pages 181 and 182 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 Likely Consequences of Any Decision in the Long Term (continued)

Following the fundamental strategic review that was conducted during 2017, in October 2017 the Board approved Camelot's Three-Year Business Plan for the period 2018/19 to 2020/21, including its mission to change lives and its strategy to grow sales in a socially responsible way. The three-year plan was adopted in recognition that Camelot's licence to operate The National Lottery will (unless extended by the Gambling Commission for up to two additional periods of six months) expire on 31 January 2023. 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 last two years of the licence are still expected substantially to be focused on the transition to the next (fourth) licence beginning on 1 August 2023.

Under the governance arrangements approved by OTPP 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.

A Two-Year Business Plan for 2019/20 and 2020/21 (developed from the plan for 2018/19 and following the same mission and strategy) was therefore prepared by senior management and considered by the Board on an iterative basis at its meetings in September and December 2018. The plan was finally considered and approved by the Board at its meeting in February 2019. The associated Annual Budget and Annual Plan for 2019/20 were then considered and approved by the Board at its meeting in March 2019. The Annual Budget and Annual Plan for 2020/21

were considered on an iterative basis by the Board at its meetings in December 2019 and February 2020, and approved in February 2020.

Similar to previous years, the Directors were then able to monitor Camelot's performance against the 2020/21 Annual Budget and Annual Plan regularly throughout the 2020/21 year. 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 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 2020/21. In light of the Covid-19 pandemic, in June 2020 the Board also considered and approved a revised Annual Budget and Annual Plan for 2020/21, which it then continued to monitor throughout the remainder of the year under review.

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 Chairman's Statement and Chief Executive's Review on pages 22 to 27 and 28 to 39 respectively).

#### The Interests of Camelot's Employees

Creating an environment that allows Camelot to attract and retain talent continued through 2020/21 as one of the key pillars of the 2020/21 Annual 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"). The onset of the pandemic saw the Board and senior management making the safety and well-being of staff an overriding priority.

Camelot has followed government guidance throughout the pandemic, with the majority of staff working remotely for the whole of 2020/21 and the first quarter of 2021/22. The Company has carried out a number of surveys with staff to collect their views on working arrangements and returning to the office once social distancing requirements are lifted, and is working with a third-party consultancy in 2021/22 to develop its return to work plan.

## 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 Interests of Camelot's Employees (continued)

Performance against key performance indicators relating to that part of the 2020/21 Annual 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 (which, during the year, grew from 90% to 92% in the most recent survey), initiatives focusing on leadership and learning, all-staff update meetings, talent reviews and succession planning. Camelot took part in the 2021 Best Companies Awards. It achieved a '3 Star' rating ('extraordinary'), placing it 10th in the Best 100 Large Companies in the UK rankings.

In addition, the 2020/21 annual bonus scheme for all staff was reviewed, approved and monitored throughout the year by the Board's Remuneration Committee.

Succession planning of Camelot's senior Leadership Team was also a standing agenda item at each meeting of the Nominations Committee of the Board during 2020/21, which were also attended by Camelot's People Director. Other matters considered by the Committee during the year included Camelot's Board and Company policies on diversity and inclusion.

Jennelle Tilling, one of Camelot's independent non-executive directors, continued to have responsibility throughout 2020/21 for oversight of all matters relating to employee engagement and reflecting any issues at Board level

Further information on activity relating to Camelot's employees during 2020/21 is included in "Our People" on pages 144 to 161.

#### 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 2020/21 Annual Budget and Annual Plan. Performance against key performance indicators relating to those parts of the Annual 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 those activities throughout the year.

The key risks (and mitigations) identified by Camelot include disenfranchisement of National Lottery retailers, decline in player engagement, damage to the regulatory environment, failure to manage the risk of unauthorised access to systems or data, and failure to protect players. 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 the Strategic Report on pages 176 to 179.

Throughout 2020/21, 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

Jane Rowe – relations with OTPP

Robert Walker – operations (including retail operations)

Rob Rowley – finance, risk and audit operations

Gill Whitehead – digital and technology

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

During 2020/21, because of the Covid-19 pandemic, the Board was unable to continue to hold some of its meetings in National Lottery-funded venues across the UK. The Board intends to resume this activity at the earliest opportunity.

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

Further information on Camelot's business relationships with suppliers, players and others is included in "Doing Business Responsibly" on pages 114 to 141.

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

At the highest level, all of the activity undertaken by the Directors takes place in the context of Camelot's overarching objective to maximise returns to Good Causes through selling National Lottery products in an efficient and socially responsible way. That means a focus on ensuring that Camelot keeps its players safe by preventing underage play and playing too much, while at the same time, seeking to raise 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 2020/21, 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 above in the section on "The likely consequences of any decision in the long term" (pages 172 to 173).

At an operational level, during 2020/21, corporate social responsibility continued to lie at the heart of everything Camelot does – 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 worked to reduce its impact on the environment. Any significant issues or developments were included in reporting to the Board during the year in accordance with the governance arrangements referred to above.

Further information on Camelot's work relating to its local communities and the environment is included in "Doing Business Responsibly" on pages 114 to 141.

#### The Desirability of Camelot Maintaining a Reputation for High Standards of Business Conduct

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 Camelot's 2020/21 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 those 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), Legal (which includes the Company Secretarial function and the Data Protection Officer), Procurement and Regulation. The Board continued to oversee most, if not all, of 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 114 to 141.

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

OTPP is Camelot's sole beneficial shareholder and, therefore, the Directors were not required to have regard to this particular matter during 2020/21.

## 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 embedded in 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 and Board conducted reviews and deep dives into selected principal risks. In September 2020, as part of the annual timetable of risk, the Board of Directors undertook a robust assessment of the current principal and emerging risks facing Camelot, to ensure that the Company captures the most significant risks.

#### Coronavirus (Covid-19)

The Covid-19 outbreak is a significant event that had an impact throughout the year on a number of the Company's principal risks simultaneously. Camelot's business continuity plans were successfully invoked from March 2020, enabling it to operate The National Lottery with integrity, along with ensuring the safety and well-being of its employees, customers, suppliers and partners.

Camelot has engaged closely with the Gambling Commission, which has been fully supportive of the Company's changing risk profiles during these unprecedented events, and it agreed a number of temporary licence condition waivers to reflect the changes required with remote working and carrying out processes while socially distancing.

The Company continues to closely monitor the impact of the Covid-19 pandemic on its principal risks, namely: Retailer Environment, Digital Channel, Player Engagement, People, InfoSec / Cyber and Suppliers, and has taken proactive steps to mitigate risks as they developed.

The Board has been kept regularly informed of the impact of Covid-19 throughout the year.

#### Fourth Licence Competition

The end of the third licence and the competition for the fourth licence represents increased risk to the

long-term future of the Company. This is discussed in the Viability Assessment in the Directors' Report on page 182.

#### Mitigation and Controls

Camelot adopts mitigation activities in the form of internal controls for all key principal risks, as part of quarterly internal reviews. These include reporting to the Board, reporting to the Compliance & Risk Committee, the Audit, Risk and Security Committee, 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:

#### Player Engagement

***The relevance of The National Lottery remains critical to the success of the business and, while Camelot has stemmed its decline within the fabric of society, failure to ensure that games remain relevant and that players remain engaged could lead to a decline in sales and returns to Good Causes.***

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

#### Retailer Environment

***As retail remains a critical channel, if Camelot fails to maintain standards, advocacy and support for The National Lottery within its retailer estate, this 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 react to the macro environment and resulting cost pressures on retailers.***

Camelot maintained regular dialogue and contact with Camelot's retail partners which helped to ensure that National Lottery products have remained on sale throughout the pandemic, and undertook proactive credit monitoring, relaxed payment deadlines on a case-by-case basis and waived certain fees, all of which supported its retailer partners.

### Risks, Uncertainties and Opportunities (continued)

#### Mitigation and Controls (continued)

#### Key Supplier/Partnership Relationships

***Camelot suffers service disruptions with key suppliers and operational failures due to the inability of suppliers to provide it with their service 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 reliance. Its key suppliers have continued to operate through the pandemic. Through its designated Relationship Managers, it continues to monitor and regularly engage with key suppliers to assess the adequacy of their business continuity plans.

Camelot's Business continuity plans are created, assessed and maintained to ensure minimal business disruptions, and it maintains accreditation of ISO 22301: Business Continuity Management System.

#### Regulatory Environment

***The risk of not having a regulatory environment which ensures licence compliance and supports an effective working relationship and operating model with the Gambling Commission. Specifically, the risk that the delivery of Camelot's Annual Business Plan is impacted by the Gambling Commission's low-risk appetite and approach to marketing and other approvals.***

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, Business Assurance, 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 Business Assurance. 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

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

The Company is a socially responsible organisation, maintaining high standards of player protection, and has a clear player protection strategy to prevent underage and excessive play.

Mystery shopping has been suspended during the year owing to the pandemic, but other measures (including additional training for retailers) have been put in place to mitigate the risk.

Following the announcement that the minimum age for playing The National Lottery will be raised from 16 to 18 from 1 October 2021, Camelot put together a cross-functional programme team to deliver all of the changes needed as quickly as possible, while ensuring that the very high standards demanded of The National Lottery were maintained. A significant amount of work has taken place across the business to implement these changes in both its retail and digital channels, and the change in age to play was implemented and came into effect, ahead of schedule, on 22 April 2021.

The Company's brand messaging focusing on healthy play ('DREAM BIG PLAY SMALL') appears in above-the-line advertising and in its retail channel via media screens and ticket messaging. The Company also continues to work with GAMSTOP, which further supports its approach to healthy play.

#### People

***Increasing uncertainty, both during the remainder of the current licence period and beyond, results in an increased risk of unwanted attrition, greater difficulty in recruiting key roles, and a negative impact on engagement levels.***

During lockdown, the Company provided flexible working arrangements and wellbeing support to all employees to ensure that they could achieve an appropriate work/life balance. Camelot also adapted its cadence of communication across all teams to ensure employees remained engaged and informed throughout the pandemic.

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

## STRATEGIC REPORT (CONTINUED)

### Risks, Uncertainties and Opportunities (continued)

#### Mitigation and Controls (continued)

##### People (continued)

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. Best Companies awarded Camelot a '3 Star' accreditation (the highest standard achievable), which reflects 'extraordinary' levels of workplace engagement – placing the Company 10th in the Best 100 Large Companies in the UK rankings for 2021.

##### 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, should the current licence period be extended, systems may no longer be fit for purpose and lead to a failure to execute and deliver an effective technical solution.**

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.

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 at their best. In continuing to provide operational integrity towards the end of the licence, the ongoing management of end-of-life technology is essential, particularly components for the key gaming and corporate systems.

##### InfoSec/Cyber

**The risk of unauthorised access to Camelot's systems or data, from either an external or internal source, that results 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. Leading to reputational and/or commercial damage, and potential regulatory penalties.**

The Company enhanced its monitoring of its technology estate to mitigate the increased threat posed by hackers trying to exploit greater numbers of workers accessing their corporate networks remotely and much greater levels of digital commerce that has resulted from the Covid-19 pandemic.

The Company complies with the ISO 27001 Information Security Standard and World Lottery Association Standards. Similar to other organisations, the Company 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.

##### Digital Channels

**This risk has two components:**

**Technical: There is a risk that Camelot fails to maintain a fit-for-purpose digital platform, which leads to poor customer engagement, loss of sales and a significant impact on any potential bid for a fourth licence; and**

**Commercial risk: Strong commercial performance achieved through the delivery of its digital strategy is not maintained, which leads to reduced customer satisfaction, lost sales and returns to Good Causes, and a significant impact on any potential bid for a fourth licence.**

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

### Risks, Uncertainties and Opportunities (continued)

#### Mitigation and Controls (continued)

##### Operational Controls

**The risk that Camelot fails to prevent player-impacting failures occurring due to:**

- **lack of/ineffective controls across disparate IT systems and manual processes;**
- **ineffective controls across player-facing processes; or**
- **insufficient operational resilience and BCP, including operating under high sales volumes.**

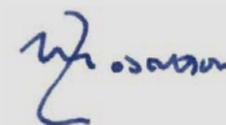
**These failures lead to a poor player experience, reduced revenues and potentially licence breaches.**

During the pandemic, the Company saw its Business Continuity Plans (BCP) work effectively across its teams and it continued to operate effectively as a majority of staff worked remotely, with only remote supervision.

A 'Safeguarding Integrity Model (SIM)' was developed, which identified the key controls needed to operate The National Lottery with integrity during an extended period of business interruption. These controls were embedded as part of the BCP of each operational area.

The Company invested in ongoing improvement in the maturity of its operational processes and control environment, with the continued automation of certain key processes and the embedding of operational integrity into all operational aspects of Camelot's work.

The Strategic Report was approved by the Board of Directors on 24 June 2021 and was signed on its behalf by:



Sir Hugh Robertson KCMG PC DL  
Chairman

Camelot UK Lotteries Limited  
Company Number: 02822203