

Governance

We are committed to high standards of corporate governance. Our approach takes into account our values, legal and regulatory requirements, stakeholder expectations, and current best practice.

- **The Board**
- **Risk management**
- **Regulation and compliance**

Corporate governance sets the framework within which we pursue our financial and non-financial objectives, and determines the ways in which authority and accountability are distributed throughout the company. It is important in helping us to meet the legal requirement for Camelot to be managed in a fit and proper way.

The National Lottery Commission (NLC) is required by law to ensure that certain key employees are fit and proper. It operates a rigorous vetting process which extends to employees of key contractors and sub-contractors, our shareholders' directors and officers, and their parent companies' directors and officers. For more information see www.natlotcomm.gov.uk/.

The [Annual Report](#) and Accounts includes a full corporate governance statement which sets out how Camelot has complied with the provisions of the Combined Code and other UK best practice.

The Board

Camelot is unusual in that all its shareholders are represented on its Board. Sir Peter Middleton is our independent non-executive Chairman. We have three other independent non-executive directors, a non-executive director appointed by each of our five shareholders, and four executive directors.

Camelot shareholders

Cadbury Schweppes

www.cadburyschweppes.com



DeLaRue

www.delarue.com

FUJITSU

www.fujitsu.com



www.royalmail.com

THALES

www.thalesgroup.com

The diagram below illustrates the make-up of the board, the three formal committees of the Board and the links with the Advisory Panel for Social Responsibility (APSR), which reports into the Board through the chair who is also a non-executive director. See Management structures



The five non-executive directors representing shareholders bring to the table specific experience related to The National Lottery. Independent non-executives, including the Chairman, are recruited using external consultants in accordance with clearly-defined role specifications. They are appointed initially for a three-year term, renewable for two further terms of three years.

The wide-ranging experience and backgrounds of the non-executive directors ensures robust debate and provides challenge to the executive directors.

Camelot's executive directors are the Chief Executive, the Commercial and Operations Director, the Bid and Strategy Director and the Director of Corporate Affairs. The executive directors are supported by a team of functional directors which meets weekly. This team includes Directors of Security and Facilities, People, Sales, Marketing, New Product Development, Regulation and Governance, Finance, Legal, IT and Customer Services. This team ensures high-level focus on company-wide issues, performance and risk management issues. The Corporate Responsibility Board advises the executive directors in line with advice received from the APSR. See [Principles and processes](#).

The Board committees work according to terms of reference agreed by the Board. The details of the Nominations Committee (which selects candidates to fill Board vacancies) and the Remuneration Committee (which sets a framework for executive directors' remuneration) can be found in the Annual Report. Details of the Audit, Risk and Security Committee are in the Risk Management section below and the APSR is described in the [Principles and processes](#) section.

Developments

In our 2004 Social Report we set out three ways we would improve corporate governance.

The first was **to put a programme in place to enable Board directors to see how the company operates at grass roots level**. All Board members were invited to attend a Retailer Forum, visit a call centre, participate in business induction presentations and visit retailers. Board members have attended some of the events offered.

The second was **to make recommendations on an annual evaluation process for the Board and its committees**. We have provided recommendations on an annual evaluation process and our new Chairman, Sir Peter Middleton, is currently assessing how we should take this forward. This commitment will be carried forward to the year 2005/06.

The third commitment was to **offer training for Board directors**. Board directors were provided with training developed and delivered by our lawyers, CMS Cameron McKenna, on Board directors' responsibilities and obligations under the Combined Code and their legal responsibilities as Board directors.

Engaging with shareholders

As well as having board representation, shareholders are involved in our day-to-day operations and in specific projects:

- Royal Mail is a National Lottery retailer with 982 post offices selling tickets through terminals. It has also helped develop our thinking on diversity
- Fujitsu operated the Camelot payroll until recently, and carries out terminal maintenance
- Cadbury Schweppes shared best practice in our community consultation
- Thales provided valuable input into our environmental consultation process and provided guidance on environmental management systems.

We sent a questionnaire to our shareholders in March 2005 asking them about their relationship with Camelot. All shareholders rated our overall relationship with them highly. They said:

- They see Camelot as a socially responsible company that acts fairly and with integrity
- They are satisfied with the way we manage our relationship effectively with our regulator
- They feel they are being adequately informed and involved in decisions around bidding for a third licence and future game plans.

Some also suggested the following improvements:

- We need to communicate better, especially the timing and quality of information provided prior to Board and committee meetings
- They would like more information about our investment plans
- They want more information about social responsibility reporting and policies.

For 2005/06, we will

- Implement recommendations on an annual evaluation process for the Board and its committees
- Hold a session on corporate responsibility for Board members

Risk management

Our principal risks concern the reputation and integrity of The National Lottery. All significant risks are identified by 'risk owners' and recorded in the Corporate Risk Register maintained by the Business Assurance department. The Register is continually monitored and updated.

The Head of Business Assurance is responsible for the Risk Register. He attends meetings of the Audit, Risk and Security Committee (ARSC) and reports to the Chief Executive. He joined the Corporate Responsibility Board in May 2005 to ensure that CR-related risks are fully understood by the business.

The Business Assurance function, which includes internal audit, reviews the efficiency and effectiveness of risk and control systems annually. PricewaterhouseCoopers which audits our financial statements, relies on the work conducted by internal audit.

Camelot's 'Key Risk' profile and planned actions to mitigate risks are formally reviewed every quarter by two committees: the Risk Management Committee and the Audit, Risk and Security Committee.

Risk Management Committee (RMC)

The Risk Management Committee is chaired by the Commercial and Operations Director. It includes all members of the executive team and heads of functions, including Social Responsibility. This committee

meets quarterly, two weeks before the ARSC, and agrees the key risk profile to be presented to the ARSC. The Head of Business Assurance provides a progress report to the RMC on the company Business Continuity plan.

Audit, Risk and Security Committee (ARSC)

The Audit, Risk and Security Committee is chaired by Gerry Acher, an independent non-executive director. The committee consists exclusively of non-executive directors, although executive directors, the Head of Business Assurance and the external auditors are invited to attend these meetings. The committee meets four times a year and its duties are to:

- Review the company's financial and accounting policies, interim and final results (and Annual Report) prior to their submission to the Board, together with management reports on accounting, risk and internal control matters
- Ensure that the objectivity and independence of the internal and external auditors is safeguarded. To review the output and monitor the effectiveness of the internal audit function
- Assist the Board in fulfilling its responsibilities for both identifying and managing the risks associated with the business, and reviewing the company's internal control environment. It also monitors the company-wide risk management framework and key risk profile
- Approve the company's security policies for operating The National Lottery, and ensure that they are adhered to through the Director of Security and Facilities.

Business conduct

In consultation with stakeholders, we have developed a number of formal, written policies covering our social, environmental and ethical impacts. See [Principles and processes](#).

Camelot's [Code of Conduct](#) outlines key principles and provides guidance for employees on the behaviour and business conduct that is expected of them. It links to other relevant company policies. The code is based on best practice and is approved by the National Lottery Commission (NLC).

Board directors and employees of Camelot and the NLC are prohibited from purchasing a ticket, as are their partners and dependents if they are living in the same household.

The induction process for all new employees details Camelot's values and behaviours. We tell them about the Code of Conduct, and policies in areas such as anti-harassment, health and safety, gift restrictions and security. Employees are expected to familiarise themselves with and abide by the policies that relate to their work.

The Audit, Risk and Security Committee has approved a [Whistleblowing policy](#), which is intended to encourage employees and anyone working on our behalf to help us identify potential fraud, corruption and unacceptable or unlawful conduct within the company.

This policy identifies an independent person who employees can contact to raise ethical issues confidentially and anonymously if they wish to.

In 2004/05 there were 32 cases of discipline in relation to the Code of Conduct and no cases of whistleblowing.

In 2005/06 we plan to raise awareness and to improve compliance with the Code of Conduct.

Regulation and compliance

Camelot is regulated by the National Lottery Commission (NLC), which sets the terms of its licences and other regulatory requirements. The NLC has wide powers and can question any aspect of our operation of the lottery. We provide the NLC's Compliance Division with office space at our Watford headquarters.

We are acutely conscious of the potential impact on our operations of any compliance failings. A compliance report is prepared for every Board meeting. The Company Secretary, who is responsible for our relationship with the regulator, attends each Board meeting and deals with any matters about regulatory compliance.

We engage with the NLC through a network of meetings. Our Chairman and Chief Executive meet regularly with the NLC's Chairman of Commissioners and Chief Executive. There are monthly meetings between Camelot's Executive directors and Director of Regulation and their counterparts at the NLC. Our Directors of Regulation, IT and Security also meet with the relevant NLC Directors.

In 2004 we committed to **consider the value of carrying out a customer relationship survey with the National Lottery Commission**. This was considered and discussed with the NLC but both parties felt it would serve limited purpose at the moment.

In 2005/06 we are committing to ensure that all staff are fully aware of their obligations, by putting in place comprehensive compliance awareness training. See [Delivering commitments](#).

Political donations

Camelot is a politically neutral organisation, but we are required to comply with the Political Parties Elections and Referendums Act 2000, which defines political donations and expenditure more widely than these terms might commonly suggest.

During 2004/05, Camelot spent a total of £107,671 on activities that could be regarded as falling within the terms of the Act, including the sponsorship of briefings, receptions and fringe meetings at party conferences, and attendance at party events. Such events are an important opportunity for Camelot to represent its views, in a non-partisan way, to politicians from across the political spectrum.

Our Policy and Public Affairs team adheres to a [Government Relations Code of Practice](#).