

CAMELOT UK LOTTERIES LIMITED: THE ROLE OF THE BOARD

The Board's role is to provide entrepreneurial leadership of the Company within a framework of prudent and effective controls which enables risk to be assessed and managed. The Board sets the Company's strategic aims, ensures that the necessary financial and human resources are in place for the company to meet its objectives and reviews management performance. The Board should set the Company's values and standards and ensure that its obligations to shareholders and others are understood and met.

In outline the main functions of the Board are:

1. to be in full control of the Company's affairs by meeting regularly. It will in particular ensure that there is a clear division between the running of the Board and the executive responsibility for the running of the Company's business. To this end, there is clear division of responsibility between the Chairman of the Board and the Chief Executive;
2. to determine the strategies, objectives and policies of the Company; approve long term plans and annual budgets; take major decisions identified by the Board and monitor performance regularly using appropriate tools and agreed metrics against approved strategies, timetables, plans, budgets and policies;
3. to be alert to its obligations to shareholders for the short term performance of the Company and its long term prosperity; and for the maintenance of the Company's reputation and character;
4. to appoint the Chief Executive, support him/her fully while it is satisfied with his/her performance and to remove him/her if and when it is not;
5. to appoint one of the independent non-executive directors to be the senior independent director;
6. to engage in long term talent development and succession planning for the CEO and senior management, and to ensure that adequate replacements are available for recommendation the holder of the majority of the C Preference Shares (as defined in the articles of association) (the "**C Preference Shareholder**"), or could quickly be made available, for all Executive Directors;
7. to maintain a sound system of internal control to safeguard shareholders' investment and the company's assets and to review such control formally at least annually;
8. to ensure that the Company is always in a healthy financial state, able to finance its commitments and meet its obligations;
9. to define the roles and responsibilities for the Chair, the non-executive directors and senior management;
10. to be actively engaged in the management of information, and in guiding senior management, to ensure that information is clearly sign-posted, with an outline of questions for the Board, a focus on implications and business impact, and recommendations for actions;
11. to provide guidance on how to manage and interact with all external stakeholders and regulator;
12. to ensure that the company complies with the terms of the Section 5 and 6 licences and that the Company's interest in the licences is protected at all times; and
13. to act as a responsible employer to its employees.

NB: Access to the Company Secretary

All directors are to have access to the advice and services of the Company Secretary who is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with.

Attached is a formal schedule of matters specifically reserved for the Board's decision. This schedule is subject to any restriction that may be placed on the authority of the Board's under the articles of association of the Company.

Approved by the Board on 28 June 2018

MATTERS RESERVED FOR THE BOARD

The Board has delegated to the Chief Executive wide powers for the day-to-day management of the Company. It has also delegated to Committees of the Board the duty to make recommendations to the full Board in specialised areas: these are the Audit, Risk and Security Committee, the Remuneration Committee, the Nominations Committee and the Sealing Committee.

The Board must have referred to it any issue which would have a material effect on the Company's financial position, liabilities, future strategy or reputation.

In addition but subject to any limitation on the authority of the Board under the articles of association of the Company, the Board reserves to itself the power of decision, approval or agreement, as the case may be, over certain matters which are summarised below:-

1. Strategy and Management

- 1.1 Responsibility for the overall management of the Company.
- 1.2 Approval of the Company's long term objectives and commercial strategic plan.
- 1.3 Approval of the annual operating and capital expenditure budgets and any material changes to them.
- 1.4 Oversight of the Company's operations ensuring:
 - Competent and prudent management
 - Sound planning
 - An adequate system of internal control
 - Adequate accounting and other records
 - Compliance with statutory and regulatory obligations.
- 1.5 Review of performance in the light of the strategy, objectives, business plans and budgets and ensuring that any necessary corrective action is taken.
- 1.6 Extension of the Company's activities into new business or geographic areas.
- 1.7 Any decision to cease to operate all or any material part of the Company's business.

2. Structure and Capital

- 2.1 Changes relating to the group's capital structure including reduction of capital, share issues, share buy backs, raising of funds by loan stock.
- 2.2 Major changes to the Company's corporate structure and its constitutional documents.
- 2.3 Changes to the company's management and control structure.
- 2.4 Any changes to the Company's name or its status.

3. Financial Reporting and Controls

- 3.1 Approval of preliminary announcements of interim and final results.
- 3.2 Approval of the annual report and accounts, including the corporate governance statement and remuneration report.
- 3.3 Approval of the dividend policy.
- 3.4 Declaration of the interim dividend and recommendation of the final dividend.
- 3.5 Approval of any significant changes in accounting policies or practices.
- 3.6 Approval of treasury policies including foreign currency exposure and the use of financial derivatives.
- 3.7 Approval of significant changes in loan documents and banking facilities including the opening of new bank accounts.

4. Internal Controls

4.1 Ensuring maintenance of a sound system of internal control and risk management including:

- Receiving reports on, and reviewing the effectiveness of, the company's risk and control processes to support its strategy and objectives
- Undertaking an annual assessment of these processes
- Approving an appropriate statement for inclusion in the annual report.

5. Contracts

5.1 Major capital contracts over £1m and revenue expenditure over £0.5m outside the normal course of business.

5.2 Revenue expenditure commitments in the normal course of business over £3m. [Note - normal course of business is defined as expenditure envisaged within the annual budget].

5.3 Mergers, acquisitions or disposals, either of shares or of assets and liabilities of a business or a joint venture.

5.4 Disposals of fixed assets that would generate loss of more than £500,000 or which have a net book amount of more than £500,000.

6. Board Membership and Other Appointments

6.1 Ensuring adequate succession planning for the Board and senior management.

6.2 Membership of Board Committees (excluding position of Chairman of the Board and members of the Remuneration Committee).

6.3 Recommending to the C Preference Shareholder the continuation in office of any director at any time, including the suspension or termination of service of an executive director as an employee of the company, subject to the law and their service contract.

6.4 Appointment or removal of the company secretary.

6.5 Appointment, reappointment or removal of the external auditor (to be put to shareholders for approval, following the recommendation of the Audit, Risk & Committee).

7. Remuneration

7.1 Establishing a Remuneration Committee.

7.2 Setting up of, or material change in, the Company's severance terms.

7.3 Setting up of, and any material increase in, the Company's liability for medical expenses and permanent health schemes.

7.4 Setting up of and any changes to, any significant long-term bonus/incentive scheme.

8. Delegation of Authority

8.1 The division of responsibilities between the Chairman, and the Chief Executive, which should be in writing.

8.2 Approval of terms of reference of Board Committees.

8.3 Receiving reports from Board Committees on their activities.

9. Corporate Governance Matters

9.1 Undertaking a review annually, as appropriate, of its own performance, and that of its Committees.

9.2 Establish a nominations committee to make recommendations to the C Preference Shareholder.

9.3 Reviewing the Company's overall corporate governance arrangements and ensuring the Annual Report includes a statement of compliance with the Combined Code.

- 9.4 Considering the balance of interests between shareholders, employees, customers, the community, and other stakeholders.

10. Policies

- 10.1 Approval of policies, including Health and Safety policy, Environmental policy, Corporate Social Responsibility policy and Charitable Donations policy

11. Shareholders as Suppliers

- 11.1 Consideration of the rejection of a shareholder as a counterparty to any contract or arrangement where the shareholder disagrees with the decisions of the Executive Directors, in which case, the matter will be referred to the Independent Non Executive Directors for decision on behalf of the Board if the Board itself is not able to resolve the matter.

12. Articles of Association

- 12.1 Schedule 1 (*Reserved Matters*) of the articles of association of the Company sets out a list of matters that require (i) the unanimous consent of all the directors present at a board meeting; (ii) unanimous written resolution; or (iii) approval of the parent company (being a majority holder of the A Ordinary Shares). The matters reserved for the Board under this framework of authority are limited accordingly.
- 12.2 The articles of association of the company provide that: (i) the appointment or removal of any directors of the Board; (ii) the appointment of the Chairman of the Board; and (iii) the appointment of the members of the Remuneration Committee, shall only be a power of the C Preference Shareholder. The matters reserved for the Board under this framework of authority are limited accordingly.
- 12.3 If there is any conflict between these matters reserved for the Board and the articles of association, the terms of the articles of association shall prevail and the authority of the Board shall be limited accordingly.

13. Jeopardy Event

- 13.1 Any action to be taken to deal with an event which puts or potentially puts the section 5 or 6 licences in jeopardy.

14. Other

- 14.1 The making of political donations.
- 14.2 Approval of the appointment of the group's principal professional advisers.
- 14.3 Prosecution, defence or settlement of litigation [the outcome and / or costs of which are likely to exceed £500,000 or being otherwise material to the interests of the group] (except that in the case of emergencies where speed is essential, any two directors, one of whom must be the Chairman or Chief Executive may authorise such action without prior reference to the Board).
- 14.4 Approval of the overall levels of insurance for the group including Directors' and Officers' liability insurance and indemnification of directors.
- 14.5 Major changes to the rules of the group's pension scheme, or changes of administrators and managers.
- 14.6 This schedule of matters reserved for Board decisions.
- 14.7 Annual General Meeting/Extraordinary General Meeting date, location and agenda.
- 14.8 Dates and frequency of Board Meetings.

Matters which the Board considers suitable for delegation are contained in the terms of reference of its Committees.

BOARD REPORTS

In addition, the Board will receive reports and recommendations as follows:

(a) **Chief Executive's Report at each Board Meeting**

Detailing an overall summary of any key issues arising from the Chief Executive's functional reports including as appropriate:-

- Trading Update
- Operations Update
- Regulatory and Public Affairs Update
- Controls Update
- Organisation Update

(b) **Monthly Financial Report**

Monthly Chief Financial Officer's report to advise the Board of summaries of:

- Summaries of key financial data and ratios
- Details of sales, costs, profits, margins, budgeted and actual
- Statements and projections of liquidity and cash proposals for major terms of capital expenditure
- Special reports on new/major/troubled projects
- Interim profit and loss accounts
- Balance sheets and updated budgets and projections
- Compliance with banking covenants
- Major litigation potential and actual

And on an ad hoc basis, reports on Information Technology, Research and Development, Property and Treasury.

(c) **General**

Progress reports on decisions taken by the Board or delegated to the Executive Directors.