

NEW ZEALAND LOTTERIES COMMISSION

STATEMENT

OF INTENT

for the financial years ending 30 June 2005 - 30 June 2007

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This statement of intent for the New Zealand Lotteries Commission meets the requirements of section 41C of the Public Finance Act 1989. It is for the financial years ending 30 June 2005, 2006 and 2007. The statement sets out the overall intentions and objectives of the New Zealand Lotteries Commission during this three-year period.

Our Purpose

To provide safe gaming that allows New Zealanders to play and win and contribute money back to New Zealand communities.

Our Goal

Our primary goal is to generate higher earnings so that we are able to maximise our contribution back to New Zealand communities while endeavouring to minimise problem gambling and under-age gambling.

We will achieve this by creating winning outcomes for all our stakeholders - our customers, our shareholder the government, our retail network and other business partners, and our staff.

Introduction

Our Role

New Zealand Lotteries Commission (NZLC) is New Zealand's only gaming provider with a pure community-benefit funding model. Lotto, our flagship game, has become a national icon.

Lotto was introduced as a result of the 1985 report *Sport on the Move*, which saw the new game as a source of extra revenue for recreation, arts, sport and community projects. The Labour government of the day agreed that the income from the existing Golden Kiwi had peaked. And so NZLC was established in 1987, with Lotto's first draw being held on 1 August that year.

Alongside Lotto, NZLC's other current products are Lotto Powerball, Lotto Strike, Keno and Instant Kiwi.

Public Perceptions of NZLC

Our community-benefit funding model means that we are perceived differently from other gaming providers¹. The public believes that NZLC has an established history and presence in New Zealand society. We are seen as a source of large-scale community funding whose games are regarded as "fun" or a harmless flutter rather than gambling. Because it is government-owned, the organisation is subject to stringent government reporting and monitoring requirements.

NZLC's retail network of more than 640 "Lotto Shops" employs more than 3,600 people. We run the largest single retail network in New Zealand and are seen as a leader in retail developments, a position we aim to keep as we expand our retail network.

1 CM Research (2001), *NZLC Survey of Public Attitudes to Gaming*

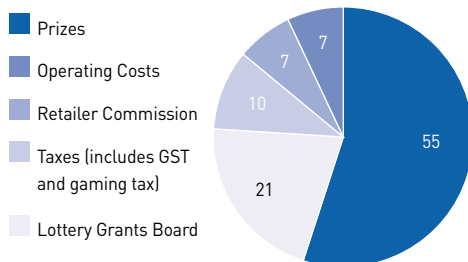
Supporting the Community

NZLC earnings are passed to the New Zealand Lottery Grants Board and flow on to directly benefit the community. Funding from the Lottery Grants Board for vital community projects and the activities of major statutory bodies relies on the profits that come from our games.

Since its creation, NZLC has contributed more than \$1.8 billion to the Lottery Grants Board. Twenty one per cent of NZLC sales go directly to the community - see Figure 1.

Figure 1: How Lotteries money is spent

For every \$1 from combined sales:



* Based on forecast results for the year ended 30 June 2004

New Zealanders strongly support this community-benefit model: that the profits from gaming should be used primarily for community and charitable purposes. Since 1985, the Department of Internal Affairs' five-yearly survey of public attitudes towards gaming has found consistently that more than 90 per cent of New Zealanders support this aim².

We are the main supplier of funding for Sport & Recreation New Zealand, Creative New Zealand and the New Zealand Film Commission. The activities of New Zealand's artists, film-makers

and high-achieving sportspeople are an image of what we can be as a nation. They act as a major catalyst in creating New Zealand's sense of where it stands in an increasingly globalised and uncertain world.

The remainder of the Lottery Grants Board's funding supports around 3,400 grass roots community activities and projects each year. This type of community funding helps develop vibrant civic communities based on caring and supportive networks.

Lottery Grants Board Community Allocations Confirmed for 2003 - 2004

Statutory Grants	(millions)
Arts Foundation	\$ 0.9
Creative New Zealand	\$18.6
New Zealand Film Archive	\$ 0.6
New Zealand Film Commission	\$ 8.0
High Performance Sports	\$ 3.5
Sport and Recreation New Zealand	\$24.7
Total	\$ 56.3
Community Distribution	
Environment and Heritage	\$ 5.5
General	\$ 5.3
Health Research	\$ 1.9
Individuals with Disabilities	\$ 3.0
Marae Heritage and Facilities	\$ 4.1
Minister's Discretionary Fund	\$ 0.2
Pacific Islander Provider Development	\$ 0.4
Problem Gambling	\$ 0.6
Seniors	\$ 3.0
Welfare	\$10.5
Youth	\$ 4.9
Total	\$ 39.4

Source: Lottery Grants Board and Department of Internal Affairs

Responsible Play

One of NZLC's main statutory functions under the Gambling Act 2003 is to maximise profits generated, subject to ensuring that the risks of problem gambling and under-age gambling are minimised.

NZLC and its retail network conduct all aspects of lottery business in a professional and responsible manner. All efforts are made to provide a safe, friendly and responsible play environment that adheres to legislative and regulatory requirements.

Initiatives to ensure its responsibilities under the Act are met include establishing a *Code of Practice for Responsible Play* and a companion brochure that from 1 July 2004 will be carried in all Lotto outlets, on the NZLC website and integrated into retail network training programmes.

To ensure compliance with the age restriction for playing Instant Kiwi increasing under the new Act to 18 years on 1 July 2004, in-store communications and training will be directed at existing players, potential players and the retail network.

For most people, playing lottery games is fun and rewarding entertainment and lotteries provide a clear net community benefit. There are, however, a very small number of people for whom playing our games creates gambling problems.

The limited impact our games have in this area is reflected in problem gambling figures for the 2003 year which show that at most 0.55%, or 23, of the 4,182 gamblers who received counselling for the first time cited our products as their primary mode of gambling.³

While lotteries rarely cause problem gambling, NZLC supports programmes that help protect people most at risk through an annual contribution to the Problem Gambling Levy. Under the Act, the responsibility for problem gambling services shifts to the Ministry of Health on 1 July 2004. NZLC has been active in consultation processes on these changes and will continue to contribute as the Ministry works with the Department of Internal Affairs on problem gambling and harm minimisation issues.

NZLC also participates in responsible gaming surveys conducted by the World Lottery Association.

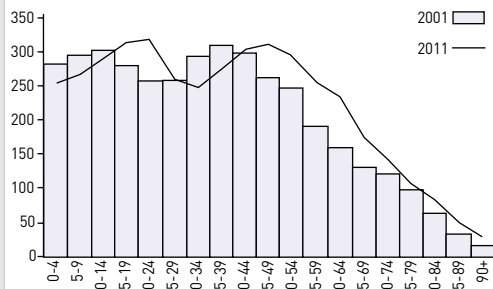
3 Problem Gambling Purchasing Agency for The Problem Gambling Committee (April 2004). *Problem Gambling Counselling in New Zealand 2003, National Statistics*. Palmerston North. p12, 13, 22, 41, 44

Operating Environment

Population and Lifestyles

NZLC only operates within New Zealand, a market that has a relatively slow growing and ageing population - see *Figure 2*. The resident population of New Zealand was estimated at 4.05 million at 31 March 2004 and population growth was estimated to be 56,700, or 1.4 percent, during the year to March 2004. Natural increase contributed 28,700 to population growth and net migration contributed 28,000 during the same period. Half of New Zealand's population was over 35 years of age at 31 March 2004 and about one in eight were aged 65 years and over.⁴

Figure 2: New Zealand Population Demographic 2001 - 2011 (000's)



Source: Statistics New Zealand

The ethnic diversity of New Zealand's population has changed significantly since the beginning of Lotto in 1987 and population growth is focused on Auckland which has much greater ethnic diversity

than other cities. Only 65% of Auckland's population was born in New Zealand compared with a national average of 81%.

When Lotto first started, crowding around the TV on a Saturday night was the social engagement of the week. Seventeen years later New Zealanders live more mobile and social lives with a corresponding growth in movie theatre complexes, live entertainment and a burgeoning café and restaurant culture. Those at home on a Saturday night are spoilt for choice between satellite and free-to-air television, along with electronic and other home entertainment options.

New Zealand Gaming Industry - Regulatory Environment

NZLC operates in a complex regulatory environment involving strict legislative boundaries, complex stakeholder relationships and a high level of scrutiny. Changing existing games, or introducing new ones, requires long lead times. On the other hand, this environment means we are able to offer stakeholders transparency and integrity in terms of processes and communication with the community.

The Gambling Act 2003

The Responsible Gambling Bill was passed as the Gambling Act in September 2003, marking the beginning of a new era for New Zealand's gaming industry after a lengthy period of uncertainty.

The Act introduces strong harm minimisation measures and allocates responsibility for funding and implementing problem gambling services, and developing a corresponding public health strategy, to the Ministry of Health.

The Act establishes the Gambling Commission and disestablishes the Casino Control Authority whose residual functions are to be integrated into the functions of the Department of Internal Affairs and the Gambling Commission. The Act provides that no new licences for casinos will be issued.

It places a total market cap on gaming machines, limits to nine the number of gaming machines per venue licensed since October 2001 and strengthens controls on the gaming machine environment, including the mandatory monitoring of gaming machines.

The New Zealand Racing Board and racing clubs are permitted to operate gaming machines in TABs and racing clubs and the TAB can continue selling its products online.

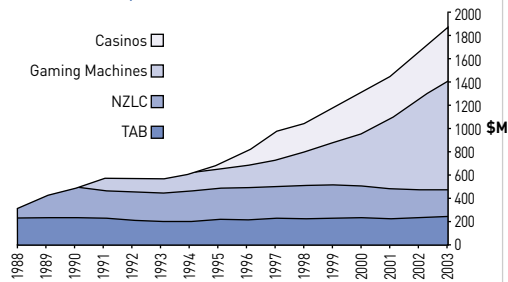
For NZLC, the Act raises the minimum age restriction on our Instant Kiwi product to 18 years, effective 1 July 2004, and the organisation can now offer remote interactive gaming products.

Competition

Over the past 17 years, the gaming market in New Zealand has grown rapidly and overall consumer participation has increased significantly. However, in the face of stiff competition from gaming and other competitors, expenditure on NZLC products has remained relatively static, and our share of the gaming market has progressively declined as new entrants have grown rapidly - see *Figure 3*.

Expenditure in the New Zealand gaming market grew by more than 12% during 2003. But NZLC's overall market share fell to 13% during the same period as competitors took the lion's share of new growth.

Figure 3: New Zealand Gaming Market Expenditure 1988 - 2003 \$M



Source: Department of Internal Affairs- Financial Year Ending 2003

Direct competitors

NZLC's direct competitors within the gaming industry provide intense competition with their gambling products, typically offering rapid return reinvestment opportunities.

TAB

- Offers racing and sports betting, retail and web channels and gaming machines, and is expanding into SMS and ITV channels.

Non-casino gaming machines

- As at 31 March 2004, the Department of Internal Affairs estimated that there were 22,646 gaming machines in pubs and clubs with 661 societies operating them from 2,007 venues. This amounts to approximately one machine for every 130 New Zealanders aged 18 or over⁵.
- Prior to the passing of the Gambling Act 2003, the trend had been for a rapid increase in the number of gaming machines. The Act capped the number of gaming machines per venue to nine and since then there has been a consequential decline in the number of machines each quarter.

5 Statistics New Zealand. The estimated resident population of New Zealand aged 18 years or over, as at 30 June 2003, was 2,946,970.

- The Act also legislated for the stricter monitoring of gaming machines.
- Jackpot devices linking gaming machines within a venue have been operating for several years. Loyalty programmes for gaming machines in pubs and clubs are prohibited.

Casinos

- The Act provides for no more casino licences to be granted.
- In 2003, player expenditure in casinos was almost twice that spent on NZLC products with casino expenditure increasing by a third in the past three years.

Interactive gaming

- A variety of overseas internet-based options are available to New Zealanders and these are increasing all the time.

International lottery blocs

- Such blocs already exist in the United States and Australia and there are international and European lottery alliances involving the US, Asian countries, Australia, the UK, France, Spain and other European countries.

Indirect competition

Indirect competition for New Zealanders' discretionary dollars continues to intensify:

Pay television

- Sky and TelstraClear have more than 500,000 subscribers paying an average of just under \$55 a month for their services.

Home entertainment

- Videos and DVDs are very common, offering choice and ease of use at an increasingly low cost.

Mobile phones

- There are more than 2.8 million mobile users in New Zealand representing 70% of the population⁶.
- Users are being offered high-speed data and content delivery, mobile commerce is emerging and there are interactive competitions which can reach a broad player base.

The Internet

- In 2003, more than 50% of New Zealanders had access to a computer and 37% of households had access to the Internet.
- Computers and high-speed Internet access are becoming cheaper, interactive content is becoming mainstream, and e-mail is a popular communication and marketing tool.

⁶ As at December 2003, Vodafone estimated that there were 2.83 million mobile phone users in New Zealand, representing 69.9% of New Zealand's total population.

Technology Trends

Our traditional retailers and the players they serve will continue to be the dominant lottery sales channel for the foreseeable future. Our main priority, therefore, is to continue our efforts to maximise sales of our existing products through our retail network.

However, an increasing number of prospective customers' consumer preferences do not match our current distribution channels and the products on offer. In the future, we are looking at offering products over a variety of channels in order to capture as much of the market as possible while also increasing traditional retail sales year on year.

There are some key trends to consider for our games and their distribution:

Technology implications on the retail channel

- Multimedia at Point of Sale (POS).
- Loyalty programmes.
- Easy-to-use and intuitive POS terminals.

Increased mobility

- The greatest technological advancements over the past few years, with more to come, are with mobile devices. A mobile phone is a key ingredient in the way many people live their lives.
- High-speed data, high text messaging (SMS) uptake, Mobile commerce (M-commerce), portable computing integration.

Increased use of the Internet

- High-speed access, higher computer literacy rates.

Interactive TV

- More subscribers, e-mail and browsing, more sports coverage and betting opportunities.

Economic Environment

The following is a summary of a report provided by Infometrics in May 2004 for the purpose of assisting NZLC in its planning for the three years ending 30 June 2007.

New Zealand's economic growth is expected to slow over 2004/2005, largely driven by declining population growth and a cooling of the real estate boom. Nevertheless, expansionary fiscal policy and strengthening world demand mean that the slowdown will be relatively modest, and that growth will recover throughout 2005 and into 2006.

The following is a list of other relevant assumptions about the economy:

- Gross domestic product (GDP) growth is expected to bottom out at 2.5-3% per annum around the end of 2004, with real growth of 3.5-4% by March 2006.
- Retail sales are expected to increase at above the rate of GDP.
- Aggregate real disposable income growth accelerated over 2003/2004 as economic growth remained strong. It is expected to grow by an average of 2-2.5% per annum over the forecast period.
- Unemployment has continued declining and is now just 4.3%. The unemployment rate is likely to remain towards the bottom of the 4-6% range over most of the forecast period.
- Inflation is likely to accelerate over the next 12-18 months as the New Zealand dollar weakens, fiscal expansion stimulates the economy, and international inflation gathers momentum. By the end of 2005, inflation could be near the top of the Reserve Bank's 1-3% target band. Generally, though, inflation is likely to stay within the band.

- Interest rates are rising, with 90 day bill rates likely to reach 6.2% this year. Any room for rate reductions in 2005 as the housing market slows may be limited by rising inflation. Ninety day bill rates are likely to hold in the 5-6.5% range for the next two years.
- The New Zealand dollar is declining - the trade weighted index (TWI) has fallen from 68 to 62 over the last three months. Further, slower, declines are likely, with the TWI reaching 55 by mid 2006.
- Taxation will be levied on NZLC's products on the same basis as in the past (that is, there will be no changes in GST or lottery duty). NZLC is exempt from income tax but pays GST on net gaming revenue (sales less prizes) and lottery duty at 5.5% of sales.

Strategies

The strategic initiatives laid down in 2003/2004 remain the guiding principles in 2004/2005.

Products and Customers

The aims of this strategy are:

- To attract more players by simplifying and strengthening the appeal of our games.
- To create more opportunities for our customers to play and win taking into account the new Gambling Act environment with its focus on harm minimisation.

Distribution

The aims of this strategy are:

- A flexible, cost-effective retail model that meets the needs of a changing population.
- The ability to offer products electronically when desired by customers and when available through our new gaming system.

Technology

The aims of this strategy are to:

- Ensure that our gaming system is capable of delivering our products cost-effectively and reliably through an expanded distribution network.
- Develop our technology roadmap for the future - interactive games, interactive channels and improved business processes.

Organisational Identity

The key outcomes of this strategy are:

- The successful implementation of the new organisational identity and brand into the market place.
- A strengthened public perception that all NZLC products offer the opportunity to win prizes, that the proceeds are used to enhance the New Zealand way of life and that they are conducted with complete integrity.

Winning Team

The aims of this strategy are to foster an environment that:

- Promotes teamwork and success.
- Enables effective delivery of products and support mechanisms.
- Encourages effective capture of market innovations.

Operational Efficiency and Processes

The aim of this strategy is to:

- Strengthen our focus on cost management to improve operational efficiency and drive down costs.

Connecting With Stakeholders

The aims of this strategy are to:

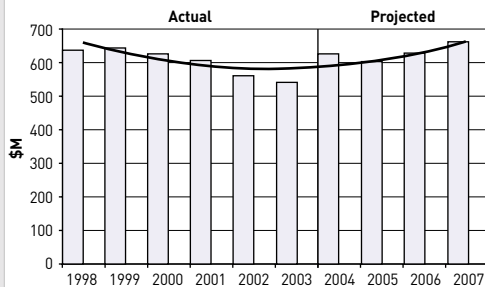
- Raise awareness of the benefits arising for the community from our profits.
- Improve the quality of our communications with our customers, retailers, staff, government and associated political and industry stakeholders.

Financial Targets

for the 2004/2005 Financial Year

Sales

Sales 1998 - 2007



From 1999, sales fell for four years in succession. However, a marked turnaround has been achieved in 2003/2004 largely through successful promotions and Powerball jackpot runs. We forecast that we will comfortably exceed budgeted sales and net profit for the full financial year.

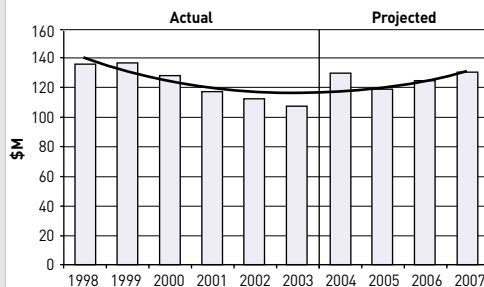
Although we expect good results, we do not expect to reach the level of 2003/2004 in the following financial year because that result has been driven so much by two large jackpotting runs for Powerball happening close together in the first six months of the year. To have a repetition of this occurrence is very unlikely.

Much opportunity still exists to increase play frequency and attract new players. This will be the key to achieving our objective of maximising our contribution to the New Zealand community. At the same time we will continue to promote policies and

practices, such as our Responsible Play Code of Practice and in-store training, that ensure we meet the Gambling Act's requirement to minimise the risk of problem or under-age gambling.

Earnings

Net Profit 1998 - 2007



Earnings fell for several years as a result of decreasing sales. However, as a result of buoyant sales, earnings are projected to be considerably above those recorded in recent years.

Earnings in 2004/2005 are projected to be higher than those for the three years ended 2002/2003, but down on the 2003/2004 earnings, which reflect the effect of unusually high sales levels generated by the Powerball jackpot runs.

Product

Changes made to Lotto in November 2002, including the introduction of Guaranteed Millionaire and an additional Bonus Ball, did not achieve the desired outcome of increasing sales. As a consequence, significant changes to the game are scheduled for implementation in mid 2004.

We have budgeted for a modest revenue increase arising as a result of these changes. We are hopeful, however, that the modified Lotto game will be sufficiently popular to generate additional revenues over and above budgeted amounts.

Over the past 12 months, Keno sales declined. Relatively low awareness and understanding of the game are the main inhibitors that must be addressed. Daily Keno became Keno Twice Daily on schedule on 10 May 2004 with the aim of increasing the spend of existing players and increasing the player base.

As the sales results for Powerball runs have shown, sales increase markedly the higher Powerball jackpots. The jackpot limit for Powerball was lifted to \$30 million in December 2003. Increasing the limit was in response to customer demand and allows NZLC to offer a bigger prize on the occasional time when Powerball jackpots beyond its previous limit of \$15 million.

We promote our lottery products using occasional value-adding programmes, such as car and holiday cruise promotions. Promotions have been particularly successful at attracting infrequent players into our Lotto games with the attraction of multiple numbers of tangible prizes.

Instant Kiwi has achieved an overall sales recovery after being in decline for several years. Continued growth will be achieved through the addition of two more ticket streams and increased distribution as our retail network expands.

Key Financial Objectives

Our budget for 2004/2005 has been pitched conservatively. This is primarily a reflection of the unpredictable nature of Powerball and the reliance placed on our projections by the Lottery Grants Board. NZLC's key financial objectives for the 2004/2005 financial year are:

- to achieve gross sales of \$602 million (estimated to represent 1.6% of retail spending*).
 - to achieve a net surplus of \$119.3 million (being 19.8% of gross sales).
 - to transfer \$114 million to the New Zealand Lottery Grants Board.
 - to hold NZLC's expenditure to its budget of \$43.4 million.
- * Excluding automobiles and automobile products.

Corporate Citizen & Integrity Performance Measures

During the period 1 July 2004 to 30 June 2005 NZLC plans to:

- conduct all draws on time for Lotto (including Lotto Powerball), Keno, and any new draw games introduced by NZLC during the year.
- comply with all provisions of the Gambling, Fair Trading, Commerce, and Consumer Guarantees Acts.
- have no complaints about NZLC's advertising upheld by the Advertising Standards Complaints Board.
- carefully monitor Problem Gambling Counselling National Statistics to confirm that no more than 2% of problem gamblers who seek counselling for the first time cite NZLC's products as their primary mode of gambling.

Performance Targets

Financial Performance Targets	Estimate* 2003/04	Budget 2004/05	Projection 2005/06	Projection 2006/07
a) Total sales (\$m) (GST inclusive)	625.1	602.0	632.0	664.0
b) Net profit (\$m)	130.3	119.3	125.0	131.0
c) Paid to New Zealand Lottery Grants Board (\$m)	115.3	114.0	125.0	131.0

* The 2003/2004 estimate is based on 11 months' unaudited actual results and an estimate for June 2004.

Note: All financial information is GST exclusive unless described otherwise.

Other targets	Estimate* 2003/04	Budget 2004/05	Projection 2005/06	Projection 2006/07
a) Annual per capita sales (adults 18 and over)*	\$214	\$206	\$217	\$227
b) Share of retail spending**	1.7%	1.6%	1.7%	1.8%

* GST-inclusive figures.

** NZLC uses retail sales (excluding automobiles and automobile products) as measured by the Department of Statistics in its retail trade survey. The most recent survey is for actual sales for the last four quarters to March 2004.

Comment:

These non-financial targets allow NZLC to monitor the efficiency and effectiveness of its business. A favourable performance by NZLC on the above targets should also be reflected in its financial results, all other things being equal. Targets (a) and (b) above can be affected by regional and national demographic trends, retail shopping developments and trading patterns.

Capital expenditure	Estimate* 2003/04	Budget 2004/05	Projection 2005/06	Projection 2006/07
Capital expenditure (\$m)	4.0	17.3	26.0	4.0

* The major item of capital expenditure in the 2004/2005 and 2005/2006 years relates to the estimated cost of a new gaming system and associated equipment. Support for the current telecommunications protocol used for the data links between NZLC's central system and its retail network is due to be discontinued in 2006. Accordingly, this investment is required in order to ensure that NZLC's products can continue to be sold through its retail network following conversion of those data links to the Internet protocol. In addition the new system will provide NZLC with the core functionality necessary for conducting remote interactive gaming (RIG). A project team has been established to lead the process of determining the nature and extent of NZLC's participation in RIG once a new gaming system has been installed.

Summarised Financial Statements

The following summarised financial statements give NZLC's expected financial performance and financial position for the 2004 and 2005 financial years. The summarised statements are based on the accounting policies set out on pages 22 and 23.

Statement of Financial Performance	Estimate 2003/04 \$000	Budget 2004/05 \$000
Sales (including GST)	625,096	602,000
Cost of sales	459,136	445,706
	165,960	156,294
Other revenue	7,371	6,434
	173,331	162,728
Operating expenses	42,984	43,391
Net surplus	130,347	119,337

Statement of Financial Position	Estimate 2003/04 \$000	Budget 2004/05 \$000
ASSETS EMPLOYED		
Investments	66,048	43,881
Current assets	3,200	4,500
Fixed assets	9,020	24,343
Total assets employed	78,268	72,724
FUNDS EMPLOYED		
Current liabilities	39,600	28,400
Prize reserve account	14,573	15,017
Long-term liabilities	1,138	1,013
Equity	22,957	28,294
Total funds employed	78,268	72,724

International Benchmarking

Comparing lotteries is a complex business and any comparisons are no more than a guide to overall performance. Lotteries vary so much in their regulatory frameworks, social and cultural environments, physical terrain for providing services, the potential numbers and relative economic wealth of their players, degree of state control, cost structures and amount of competition within their markets, that no simple, overall comparison can ever be strictly valid.

A comparison with Australian lotteries shows that their prize sizes, number of games offered, spend per capita and distribution footprint are all greater than our own. For example, in New Zealand we have an average of 1.59 lottery retailers per 10,000 people compared with 2.56 retailers per 10,000 people in Queensland⁷ and 3.5 retailers per 10,000 people in South Australia.

All overseas jurisdictions have their Lotto games spread through the week as opposed to all linked on one day, as in New Zealand. Despite this, the sales figures above show that NZLC is performing to a reasonable level internationally.

In its June 2004 issue, *Lottery Business*, a quarterly supplement to IGWB magazine, assesses all 39 US State lotteries on a series of effectiveness and efficiency measures. Instead of the usual per-capita comparisons, *Lottery Business* used aggregated personal-income figures for each US State to calculate the percentage of personal income spent on lottery sales.

The *Lottery Business* approach gives an effectiveness or market-penetration measure that is not distorted by some lottery markets having more citizens with higher levels of disposable income. NZLC has adopted this methodology and applied it to its own performance as a means of international benchmarking.

NZLC ranked as follows for the 2002/2003 financial year:

1. Effectiveness and market-penetration measure:
Fiscal 2002/2003 sales as a per cent of US State personal income. **NZLC's comparative ranking is 12th at 0.579%.**
2. Fiscal effectiveness measure:
Fiscal 2002/2003 government revenue as a per cent of US State personal income. **NZLC's comparative ranking is 14th at 0.176%.**
3. Efficiency measure:
Ranked by cents spent to generate one sales dollar in fiscal 2002/2003. * **NZLC's comparative ranking is 24th at 15.1 cents.**
* Economies of scale, population density, the percentage of rural and urban outlets, the amount of competition, commission fees, as well as telecommunications, advertising, and office accommodation costs all affect the relative cost structures of different lotteries.
4. Fiscal efficiency measure:
Fiscal 2002/2003 revenue generated for community and government as a per cent of gross revenue (sales minus prizes). * **NZLC's comparative ranking is 23rd at 68.7%.**
* This measure uses gross revenue figures, and so evens out the effect of lower prize payouts between lotteries.

7 Queensland has a similar population to New Zealand.

Technical notes to the international benchmarking comparison:

- US State personal income figures were for the calendar year 2003.
- US State lotteries revenue and expense results were predominantly for the year to 30 June 2003.
- New Zealand personal income figures were for the year to 31 March 2003. They were slightly adapted to match the categories used for the US personal income figures.
- NZLC's revenue and expenses were for the year to 30 June 2003. GST has been treated as being fully paid to the government. However, NZLC receives credits of approximately \$10 million because of the GST it pays on services from its suppliers. These credits have been treated as being ultimately paid to the government by those suppliers.

Previous Year's Performance

This section sets out NZLC's success in achieving its key corporate objectives. Because of the legislative timing of the statement of intent, figures for 2003/2004 can only be estimates. Actual results, based on audited financial statements, will be shown in NZLC's 2003/2004 annual report.

NZLC achieved its operational objectives and also projects to meet all its financial objectives.

We expect that we will exceed our budgeted profit of \$103 million by \$27.3 million. Operating expenses are expected to be about \$100,000 lower than budget. The total transfer to the Lottery Grants Board will be \$115.3 million, \$12.3 million above budget.

Success in Meeting Key Strategic Objectives for 2003-2004

Objectives	Assessment
Simpler games, more games, more often	A simplified and strengthened Lotto game is due to launch in mid 2004. Daily Keno became Keno Twice Daily on schedule on 10 May 2004.
A brand that is all about winning and the community	An organisational identity was developed and integrated into new retail network store prototypes for consumer and retail testing.
Communications that win the hearts and minds of all our stakeholders	Good relationships were established and maintained with key stakeholders. A new advertising campaign has researched positively with customers.
A winning community-based sponsorship programme	Potential new sponsorship partnerships are under review.
Distribution "anywhere, anytime"	A revised retail selection process was developed and a new retail prototype trialled in preparation for the expansion of our retail footprint. A new retail training programme was developed.
Technology "anywhere, anytime"	New Gaming System and Management Information System (MIS) Request for Proposal (RFP) processes were initiated. The new systems will be operational in 2006.
A winning team	The restructure was completed and the organisation is well placed to deliver on strategic objectives.
Operational efficiency	Expenditure as a proportion of sales for 2003/2004 was 6.9% compared to 7.4% in 2002/2003 and 7.7% in 2001/2002.

Success in Meeting Previous Year's Corporate Citizen & Integrity Performance Measures

The performance measures for the 2003/2004 year were:

- To conduct all draws on time for Lotto (including Lotto Powerball), Daily Keno, and any new draw games introduced by NZLC during the year.

Not fully achieved: The Lotto draw number 872, on Saturday 13 March, occurred as normal at 8:00pm. However, technical problems meant there was a delay in confirming the final results from this draw. As a consequence, the Guaranteed Millionaire draw did not take place until 3.15am on Sunday 14 March. The full official results were released in the normal manner shortly afterwards.

For Lotto draw 883, on Saturday 29 May, the Lotto Powerball draw was delayed due to operator error. The standard Lotto draw was conducted on time. However, the Lotto Powerball draw was televised live at the rescheduled time of 8:31pm.

On both occasions, Audit New Zealand and Department of Internal Affairs scrutineers were present throughout the process until completion and signed off on the official certificate.

- To comply with the provisions of the Gaming and Lotteries, Fair Trading, Commerce, and Consumer Guarantees Acts.

Achieved: During the 2003/2004 year, the Commission committed no offences against the Gaming and Lotteries, Fair Trading, Commerce, and Consumer Guarantees Acts.

- To have no complaints about NZLC's advertising upheld by the Advertising Standards Complaints Board.

Achieved: No complaints about the Commission's advertising were upheld by the Advertising Standards Complaints Board during 2003/2004.

Regulatory, Organisational & Financial Framework

Legislative Authority

The activities of NZLC are specifically authorised and controlled through the Gambling Act 2003 and the Public Finance Act 1989. (The majority of the Gambling Act 2003 comes into effect 1 July 2004, superseding the Gaming and Lotteries Act 1977).

This legislative framework gives NZLC four main statutory functions:

- to promote, organise and conduct New Zealand lotteries (currently Lotto, Lotto Strike, Lotto Powerball, Instant Kiwi and Keno) for the purpose of generating profits for distribution by the New Zealand Lottery Grants Board, or for a community purpose for which a special purpose lottery is promoted under section 245 of the Gambling Act 2003.
- to maximise profits so generated, subject to ensuring that the risks of problem gambling and under-age gambling are minimised.
- to make rules regulating the conduct and operation of New Zealand lotteries under section 243 of the Gambling Act 2003.
- to advise the Minister of Internal Affairs on matters relating to New Zealand lotteries.

NZLC is required to act within the Government's general policy in relation to New Zealand lotteries. We submit our annual budget to the Minister of Internal Affairs for approval and comply with any written direction given by the Minister and tabled in Parliament.

Transfer of profits to the New Zealand Lottery Grants Board

All profits surplus to NZLC's approved capital-expenditure requirements are transferred to the New Zealand Lottery Grants Board for distribution. Payments to the New Zealand Lottery Grants Board are made quarterly or at any other regular interval requested by the Minister from time to time.

The Organisation

Heading NZLC are five Commission members, all of whom are appointed by the Government. The Commission members act as NZLC's board and are responsible for its overall policy and direction.

Day-to-day running of NZLC is the responsibility of its chief executive and the other members of its executive.

NZLC operates from offices in Auckland and Wellington. Commercial operations are conducted from Auckland. Some of our sales and training personnel, whose role is to support our network of retailers, are field based. Corporate support is in Wellington.

A parallel computer installation is retained at both sites, for risk-management and security purposes.

Corporate Governance: External Relationships

Before the start of each financial year, NZLC submits a budget to the Minister of Internal Affairs for approval (including a budgeted profit transfer to the New Zealand Lottery Grants Board).

Responsibility for advising the Minister on NZLC's activities is provided by the Crown Company Monitoring Advisory Unit.

The Commission complies with section 41(1) of the Public Finance Act 1989 by providing the Minister of Internal Affairs with an annual statement of intent. This document sets out NZLC's plans for the next three years; it also contains specific performance measures and financial targets for the coming financial year.

After the end of each financial year, NZLC delivers to the Minister an annual report of its proceedings and operations during the year, together with a copy of its audited accounts and the report of Audit New Zealand on those accounts. This report is tabled in Parliament as required by schedule 4, section 24(3) of the Gambling Act 2003. After its annual report is published, NZLC appears before Parliament's Government Administration Committee to answer questions about NZLC's financial performance.

NZLC also produces a half-yearly report on its operations. Unlike the budget estimate, annual report and statement of intent, this half-yearly report is not a statutory requirement, but NZLC believes that all stakeholders (including the responsible Minister) have a right to this information.

Corporate Governance: Within the Commission

The Commission members normally meet at least monthly and additional meetings are held as required. The chief executive and chief financial officer attend all meetings.

Year-to-date financial information is provided for every Commission meeting. The Commission monitors any variances from its approved operating and capital expenditure budget.

The Commission has two committees: an Audit and Risk Committee and a Remuneration Committee.

The Audit and Risk Committee currently consists of two Commission members. It meets officials from Audit New Zealand, NZLC's auditors. This committee, with the assistance of the executive, is responsible for matters of compliance. Final approval of NZLC's accounts is confirmed by the Audit and Risk Committee after consultation with the auditors and endorsed by the Commission.

The Commission received an "excellent" rating from Audit New Zealand for financial control systems, service performance information and information systems and service performance management in the most recent audit. Financial management and financial management information systems were rated "good".

The Remuneration Committee currently consists of two Commission members who are delegated by the Commission to deal with strategic employment issues.

The executive is responsible for the Disputed Prize Claims Committee, which adjudicates on disputed prize claims from players.

Statement of Accounting Policies

Reporting entity

The New Zealand Lotteries Commission's financial statements are prepared subject to the provisions of the Gaming and Lotteries Act 1977, the Gambling Act 2003 and the Public Finance Act 1989.

Accounting convention

The financial statements are prepared under the modified historical cost accounting method. The land and building owned by the Commission is revalued periodically. The financial statements comply with the Financial Reporting Standards and Statements of Standard Accounting Practice issued by the Institute of Chartered Accountants of New Zealand. In particular, they are prepared under FRS-24.

Employee entitlements

Provision is made in respect of the liability for annual and long-service leave on an actual entitlement basis. In addition, provision is made for future long-service leave entitlements based on the portion of those entitlements that relates to periods of service up to the end of the financial year. The liability is based on current rates of pay and includes superannuation contributions if applicable.

Financial instruments

The most significant financial instrument transactions entered into by the Commission relate to investments that include on-call funds, bank bills and government stock.

Investments are recorded at cost, adjusted in the case of government stock by the amortisation of any premium or discount included in the purchase price. Interest is recognised as income on the accrual basis.

Interest on investments relating to unpaid prizes and the prize reserve account is credited directly to the prize reserve account. Interest on other investments is credited in the Statement of Financial Performance.

The value of investments held fluctuates as changes in market interest rates occur. However, as the Commission is primarily a short-term investor, the extent of such fluctuations in value is limited.

The Commission's policy is to restrict its investments to instruments issued, or guaranteed, by either the New Zealand government or registered New Zealand banks. Although investments are normally held to maturity, they are readily marketable and therefore may be regarded as liquid assets.

Fixed assets and depreciation

All fixed assets are recorded initially at cost. The net current value of the land and building is assessed by an independent valuer every three years and the book values are adjusted accordingly.

Depreciation of fixed assets, other than freehold land (which is not depreciated), is calculated on a straight-line basis so as to allocate the cost of the assets, or the revalued amount, over their estimated useful lives as follows:

Gaming computers and associated equipment	3 - 5 years
Personal computers and associated equipment	3 years
Leasehold improvements	5 years
Draw equipment	5 years
Furniture and fittings	10 years
Motor vehicles	4 years
Office equipment	5 years
Building - Structure	25 years
Building - Services	15 years
Building - Fit out	8 years

Goods and services tax (GST)

All items in the financial statements are exclusive of GST, with the exception of amounts due from retailers for current games, trade receivables, moneys received or receivable for games not drawn at balance date, and trade creditors.

Leases

Operating leases

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased item are classified as operating leases. Operating lease expenses are recognised on a systematic basis over the period of the lease.

Prize reserve account

This account is established in accordance with the requirements of the Rules governing the conduct and operation of the Commission's games. Transfers into this account comprise amounts set aside from the prize pools for games, together with prizes unclaimed after 12 months from the date of the relevant draw or game closure. Funds accumulated in this account are used exclusively for augmenting the prize pools for various draws and games.

Revenue and expense recognition

Revenues and corresponding direct expenses for Lotto (including Lotto Strike and Lotto Powerball) and Keno are recognised when each lottery is drawn. Instant Kiwi revenue and corresponding direct expenses are recognised when retailers activate ticket stock prior to sale to players, making those tickets part of a game.

Taxation

The Commission is exempt from income tax by virtue of section 264 of the Gambling Act 2003 and section 112 of the Gaming and Lotteries Act 1977. The Commission pays the following taxes:

- lottery duty of 5.5 cents in the dollar on GST-inclusive sales.
- goods and services tax.
- fringe benefit tax.
- problem gambling levy (to begin during 2004).

Changes in accounting policies

These accounting policies are consistent with those used in the most recent annual financial statements.

Directory

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Website: www.nzlotteries.co.nz

Commission Members:

John Goulter DCNZM, JP
Presiding Member

Charles Chauvel
Deputy Presiding Member

Dr Sally Jo Cunningham

Guy Herbert

Kay McKelvie

Executive:

Trevor Hall
Chief Executive

Warren Salisbury
Deputy Chief Executive

Quinton Hall
Chief Technology Officer

Warwick Hill-Rennie
General Manager Commercial Operations