

# NZ LOTTERIES

## STATEMENT OF INTENT

FOR THE FINANCIAL YEARS ENDING  
**30 JUNE 2011-2013**





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This statement of intent for the New Zealand Lotteries Commission (NZ Lotteries) meets the requirements of section 139 of the Crown Entities Act 2004. It is for the financial years ending 30 June 2011, 2012 and 2013. The statement sets out the overall intentions and objectives of the New Zealand Lotteries Commission during this three-year period.

On behalf of the board of the New Zealand Lotteries Commission.



**Judy Kirk**  
*Chair*  
21 June 2010



**Chris Curley**  
*Chair, Audit and Risk Committee*

# NZ LOTTERIES' ROLE

## Our Purpose

To provide safe gambling that allows New Zealanders to play and win while contributing money back to New Zealand communities.

## Our Background

The New Zealand Lotteries Commission (NZ Lotteries) was established in 1987 and operates as a Crown Entity under the Gambling Act 2003.

One of the largest Crown-owned trading enterprises, NZ Lotteries employs approximately 115 staff based in Auckland, Wellington and Christchurch, as well as territory representatives in some regions. We have a retail network of more than 1,000 lottery outlets that employ more than 4,000 people, the largest single retail network in New Zealand.

Lotto, our flagship game, has become a national icon. Alongside Lotto, NZ Lotteries' other products are Lotto Powerball, Lotto Strike, Big Wednesday, Bullseye, Instant Kiwi and Keno.

NZ Lotteries' profits are transferred to the New Zealand Lottery Grants Board which administers funding allocations to arts, cultural, sporting, and community groups.

The integrity of our products, transparency of our systems, and our commitment to growing our business without adverse social outcomes are the cornerstones of our business practices.

## Our Statutory Functions

The activities of NZ Lotteries are specifically authorised and controlled through the Gambling Act 2003 and the Crown Entities Act 2004.

This legislative framework gives NZ Lotteries four main statutory functions which are:

- to promote, organise and conduct New Zealand lotteries (currently Lotto, Lotto Strike, Lotto Powerball, Big Wednesday, Instant Kiwi, Keno and Bullseye) 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 underage 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.

NZ Lotteries 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.

# SUPPORTING THE COMMUNITY

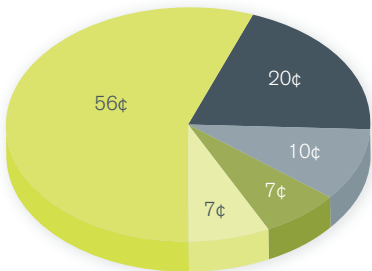
## Where the Money Goes

NZ Lotteries' earnings are passed to the New Zealand Lottery Grants Board and flow on to directly benefit the broader community.

Since its creation, NZ Lotteries has contributed more than \$2.7 billion to the NZ Lottery Grants Board. About 76% of NZ Lotteries' sales go back to the community in the form of prizes and lottery grants – see *Figure 1*.

**Figure 1: How NZ Lotteries' Money is Spent\***

For every \$1 from combined sales:



- Prizes
- NZ Lottery Grants Board
- Taxes (includes GST, gaming duty and problem gambling levy)
- Operating Costs
- Retailer Commission

\* Based on forecast results for the year ending 30 June 2010

## How Funding is Distributed

We are a major supplier of funding for Sport and 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 provide inspiration for us all.

The remainder of the NZ Lottery Grants Board's funding supports more than 4,000 community activities and projects each year. Lottery funds are raised from all sections of the community, and the Board distribution committees endeavour to ensure that grants are equitably distributed to demographic and geographic communities throughout New Zealand.



Provides Profits



Allocates Funds

**Statutory Bodies**

**Creative New Zealand**

**New Zealand Film Commission**

**Sport and Recreation New Zealand (SPARC)**

**Specialist Committees**

**Community Facilities**

**Community Sector Research**

**Environment and Heritage**

**Health Research**

**Individuals with Disabilities**

**Marae Heritage and Facilities**

**Outdoor Safety**

**Significant Projects Fund**

**Minister's Discretionary Fund**

**Community Committees**

**National**

**National Community Committee**

**Pacific Provider Development Fund Subcommittee**

**Regional**

**Auckland**

**Bay of Plenty / Gisborne**

**Canterbury / Kaikoura**

**Hawke's Bay**

**Manawatu / Whanganui**

**Northland**

**Otago / Southland**

**Taranaki**

**Waikato**

**Wellington / Wairarapa**

**West Coast / Nelson-Marlborough**

## Lottery Grant Allocations

The impact of the revenue raised by NZ Lotteries for the NZ Lottery Grants Board and its agencies can be seen from the allocations for the 2009/2010 year. As a direct result of NZ Lotteries' exceptional sales, the NZ Lottery Grants Board increased its allocations for the 2009/2010 year, with an additional \$14.2 million in funding made available to the statutory bodies and community committees.

### NZ Lottery Grants Board Allocations 2009/2010

	Base \$	Supplementary \$	Total \$
<b>Statutory Bodies</b>			
Creative New Zealand	23,070,913	2,130,000	25,200,913
New Zealand Film Commission	9,997,396	923,000	10,920,396
The New Zealand Film Archive	769,030	71,000	840,030
Sport and Recreation New Zealand	30,890,000	2,840,000	33,730,000
<b>Total Statutory Bodies</b>	<b>64,727,339</b>	<b>5,964,000</b>	<b>70,691,339</b>
<b>Community Committees</b>			
National Community Committee	13,943,875	1,033,580	14,977,455
Northland	1,420,074	155,470	1,575,544
Auckland	7,723,886	845,615	8,569,501
Waikato	2,881,033	315,417	3,196,450
Bay of Plenty/Gisborne	2,360,754	258,457	2,619,211
Taranaki	850,732	83,975	934,707
Hawke's Bay	1,303,310	116,543	1,419,853
Manawatu/Whanganui	1,706,717	186,852	1,893,569
Wellington/Wairarapa	2,449,093	268,128	2,717,221
West Coast/ Nelson-Marlborough	1,411,418	125,807	1,537,225
Canterbury/Kaikoura	2,989,861	327,332	3,317,192
Otago/Southland	1,817,714	199,004	2,016,718
<b>Total Community Committees</b>	<b>40,858,467</b>	<b>3,916,180</b>	<b>44,774,647</b>
<b>Specialist Committees</b>			
Community Facilities	13,000,000	963,616	13,963,616
Community Sector Research	1,750,000	129,718	1,879,718
Environment and Heritage	9,148,059	678,094	9,826,153
Health Research	3,186,696	236,212	3,422,908
Individuals with Disabilities	4,415,317	327,282	4,742,599
Marae Heritage and Facilities	6,885,007	510,347	7,395,354
Minister's Discretionary Fund	315,000	23,349	338,349
Outdoor Safety	8,277,941	613,597	8,891,538
Pacific Provider Development Fund	500,000	37,062	537,062
Significant Projects (base ex reserves)	9,800,000	726,418	10,526,418
Applicant GST expenses	1,000,000	74,124	1,074,124
<b>Total Specialist Committees / Funds</b>	<b>58,278,020</b>	<b>4,319,820</b>	<b>62,597,840</b>
<b>Total Distribution Committees / Funds</b>	<b>99,136,487</b>	<b>8,236,000</b>	<b>107,372,487</b>
<b>Total Allocations</b>	<b>163,863,826</b>	<b>14,200,000</b>	<b>178,063,826</b>

Source: NZ Lottery Grants Board and Department of Internal Affairs

# NZ LOTTERIES' ORGANISATION

## Our Organisation

The members of the NZ Lotteries board are appointed by the Government. The board members are responsible for overall policy and direction.

Day-to-day running of NZ Lotteries is the responsibility of its chief executive and the other members of the senior executive team.

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

Parallel computer installations are retained at two sites for risk management and security purposes.

## Corporate Governance: External Relationships

Before the start of each financial year, NZ Lotteries submits a budget and business plan to the Minister of Internal Affairs (the Minister) for approval (including a budgeted profit transfer to the NZ Lottery Grants Board).

Responsibility for advising the Minister on NZ Lotteries' activities sits with the Crown Ownership Monitoring Unit which receives quarterly updates on operating performance.

NZ Lotteries complies with section 139 of the Crown Entities Act 2004 by providing the Minister with an annual statement of intent. This document sets out NZ Lotteries' 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, NZ Lotteries delivers to the Minister an annual report of its proceedings and operations, 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 Section 150 of the Crown Entities Act 2004. After its annual report is published, NZ Lotteries may be requested to appear before Parliament's Government

Administration Committee to answer questions about NZ Lotteries' financial performance.

NZ Lotteries 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 NZ Lotteries believes that all stakeholders benefit from the provision of this information.

## Corporate Governance: Within NZ Lotteries

The board meets at least ten times a year and additional meetings are held as required. The chief executive, chief financial officer, and risk and legal manager attend all meetings.

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

The Audit and Risk Committee generally consists of three board members. It meets with officials from Audit New Zealand, NZ Lotteries' auditors. This committee, with the assistance of the executive, is responsible for matters of compliance and risk management. Final approval of NZ Lotteries' accounts is confirmed by the Audit and Risk Committee prior to endorsement by the full board.

The executive is responsible for the Disputed Prize Claims Committee, which adjudicates on disputed prize claims up to \$25,000 from players, with management's decisions subsequently endorsed by the board. Disputed claims over this amount are dealt with directly by the board.

# OPERATING ENVIRONMENT

## New Zealand Gambling Industry - Regulatory Environment

NZ Lotteries operates in a 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.

However, this environment means we are able to offer stakeholders transparency and a high level of integrity in relation to our games and associated processes.

### The Gambling Act 2003

The Gambling Act (the Act) was enacted in September 2003, and marked the beginning of a new era for New Zealand's gambling industry.

The Act introduced strict harm prevention and minimisation obligations, and allocated responsibility for funding problem gambling services and developing a strategic plan for preventing and minimising gambling harm to the Ministry of Health.

For NZ Lotteries, the Act raised the minimum age restriction on our Instant Kiwi product to 18 years

and incorporated harm minimisation requirements into our statutory functions. The statutory responsibilities placed with the Ministry of Health under the Act make it appropriate for NZ Lotteries to consult with it and the Department of Internal Affairs on harm minimisation issues, particularly when changing existing games and developing new games.

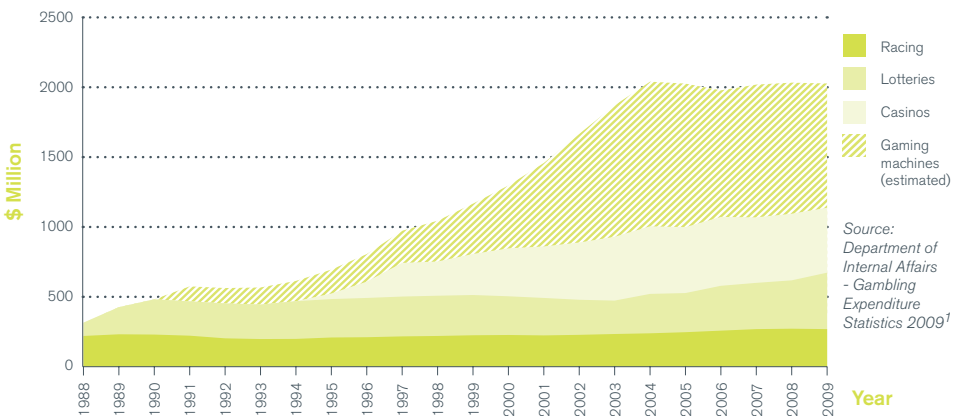
Under the Act, NZ Lotteries may conduct approved forms of remote interactive gambling.

### Competition

Since Lotto was launched twenty-three years ago, the gambling market in New Zealand has grown rapidly and overall consumer participation has increased significantly. NZ Lotteries faces direct competition for gambling revenue within New Zealand from the racing industry, casinos and non-casino gaming machines in pubs and clubs.

Until 2004, in the face of stiff competition from gaming and other competitors, expenditure on NZ Lotteries' products remained relatively static, and our share of the gambling market progressively declined as new entrants grew rapidly – see *Figure 2*.

**Figure 2: New Zealand Gambling Market Expenditure 1988 – 2009**



<sup>1</sup> Gambling statistics derived from the Department of Internal Affairs website [www.dia.govt.nz](http://www.dia.govt.nz), which also has accompanying explanations on the data. 'Expenditure' means the gross amount wagered minus the amount paid out as prizes.

Since 2004, NZ Lotteries' share of the gambling market has grown from 14% to 20% in 2009. While this was partly due to a steady increase in sales for NZ Lotteries over these years, total expenditure in the gambling market has fluctuated which has also impacted on NZ Lotteries' overall share. NZ Lotteries' 2009 result was also greatly affected by two large jackpots which led to greater than expected sales.

In 2005, expenditure in the New Zealand gambling market fell for the first time since 1992 and continued to drop in 2006, largely due to the smokefree legislation and tighter regulatory controls on gaming machines. However, this was reversed in 2007 and 2008, with overall expenditure in 2008 of \$2.034 billion, just \$5 million less than 2004's high of \$2.039 billion. 2009 has seen a slight decrease in the gambling market, though NZ Lotteries' record sales softened the impact of larger decreases in other areas of the sector, particularly non-casino gaming machines which dropped by \$49 million from 2008.

NZ Lotteries' revenues have increased over the past six years. However, in inflation adjusted terms, revenue is below mid-1990's levels.

## Problem Gambling

One of NZ Lotteries' statutory functions under the Gambling Act 2003 is to maximise profits, subject to ensuring that any risks of problem gambling and under-age gambling associated with our products are minimised.

Unlike other forms of gambling, lottery games are based on the principle of a large pool of players entering a draw for a low entry price. For most players, lottery games are 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 can create gambling problems.

Approximately 66% of New Zealand's adult population – more than two million New Zealanders – play Lotto at least once each year and 41% play Instant Kiwi.<sup>2</sup> Problem gambling figures for the 2008-2009 year show that our products were cited as a primary mode of problem gambling in 240, or 6%, of the 3,813 primary mode citations by gamblers and affected others who received a full intervention treatment for the first time (note, gamblers and affected others can cite up to five primary modes of problem gambling).<sup>3</sup>

## International Lotteries Environment

A number of lotteries around the world, spear-headed by the United Kingdom's National Lottery and various large state lotteries in the United States, are discussing the possibility of developing a 'world lottery'. In essence, the idea is for individual lotteries to band together to sell an international lottery game. Discussions are still at a preliminary stage, but at some stage it may become necessary for NZ Lotteries to make some form of commitment to the further development of this game, should we wish to participate rather than attempt to compete with it.

## Internet Gambling

Internet gambling is a relatively recent extension to traditional forms of gambling and a rapidly growing global business category. The 'gross gaming yield' (the difference between stakes placed and winnings paid out) for the global online gambling market in 2007 was an estimated US\$14.6 billion.<sup>4</sup> In contrast, the market in 2004 was estimated to be US\$8.3 billion.<sup>5</sup> This represents an increase of approximately 75% over three years.

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<sup>2</sup> *People's Participation in, and Attitudes to, Gambling, 1985 – 2005*; Results of the 2005 survey, Department of Internal Affairs.

<sup>3</sup> Ministry of Health, 2010.

<sup>4</sup> *Global Gambling Report August 2008*; Global Betting and Gaming Consultants (UK)

<sup>5</sup> *Global Gambling Report 2005*; Global Betting and Gaming Consultants (UK)

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Overseas internet gambling sites provide a wide range of gaming options for customers. These include online sports betting, race wagering, poker, bingo and casino style games, with the most popular game being poker. Internet gambling websites are successful because they meet a range of player needs not met by traditional gaming, such as the ability to play from home, at all hours and without many of the usual social controls.

Research undertaken by NZ Lotteries in 2008 indicates that 1.7% of adult New Zealanders regularly participate in online gambling on overseas websites, spending an estimated \$60 million per annum. The research also indicated that 6.6% would consider gambling on overseas websites in the future.

### **Economic Environment**

The following is a report provided by Infometrics in April 2010 for the purpose of assisting NZ Lotteries in its planning for the three years ending 30 June 2012.

The New Zealand economy contracted for five consecutive quarters between the start of 2008 and March 2009, initially due to a drought, and then as a result of the international financial crisis. Over the last three quarters of 2009, the economy expanded by 1.3% in total, despite a strong recovery in both business and consumer confidence. Factors such as tight credit conditions and the rising unemployment rate meant that the recovery in household spending failed to match the lift in confidence throughout 2009. Many of the factors that have been constraining economic activity will fade in importance over the coming year. The effects of monetary and fiscal stimulus, both domestically and internationally, should result in a more pronounced acceleration in economic growth over the second half of 2010.

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

Credit conditions are slowly becoming less restrictive, and an improving labour market should add more substance to consumer confidence throughout this year. International commodity prices for New Zealand's exports have recovered, and the persistence of these strong prices will gradually filter through into more spending in the provinces. GDP growth is expected to climb above 1% per quarter from June 2010 onwards, resulting in year-end growth of around 4%pa for March 2011 and March 2012.

Although the unemployment rate climbed to 7.1% in the December quarter, with the number of unemployed people reaching its highest level since June 1993 (seasonally adjusted), it unexpectedly fell back to 6.0% in March, suggesting that the previous very weak result was an anomaly. Further significant improvements in unemployment are unlikely in the near-term, as businesses concentrate on boosting hours for their existing staff in response to the pick-up in domestic demand. With the economy expanding relatively rapidly throughout 2011, the unemployment rate will likely drop to 5% by the end of next year.

At its low point in June 2009, per-capita household consumption was 3.7% below its December 2008 peak. However, households are coming back out of their shells, with a 1.7% pick-up in consumption spending over the second half of 2009. As the economy recovers, household spending is likely to follow economic growth rather than lead it. The current softening in house price growth and expected interest rate rises will keep consumption below its trend level. Even so, consumption is currently at a very low level, so growth in spending is expected to reach 3.4%pa by March 2011 and 3.8%pa by March 2012.

The sharp decline in both labour demand and inflationary pressures led to a drop in wage growth during 2009. Wage pressures will continue moderating throughout 2010 as unemployment remains higher than it did between 2002 and 2008, giving employers some bargaining power in their negotiations with workers. However, in 2011/12, with economic activity accelerating, unemployment retreating, and inflation expectations holding close to 3%pa, wage growth will return. After dipping to 2.5%pa in March 2011, wage growth is expected to climb to 3.9%pa in the March 2012 year.

Non-tradable inflation was particularly weak in the December 2009 quarter, as the effects of the recession finally showed up in a lack of price pressures. Although the labour market has started to tighten again, we believe there is sufficient spare capacity in the economy to keep domestic inflation subdued over the next year. An increase in GST to 15% will give a one-off boost to the price level of around 2.2%. Abstracting from this spike, inflation is expected to remain comfortably within the Reserve Bank's target band of 1-3%pa over the next two years.

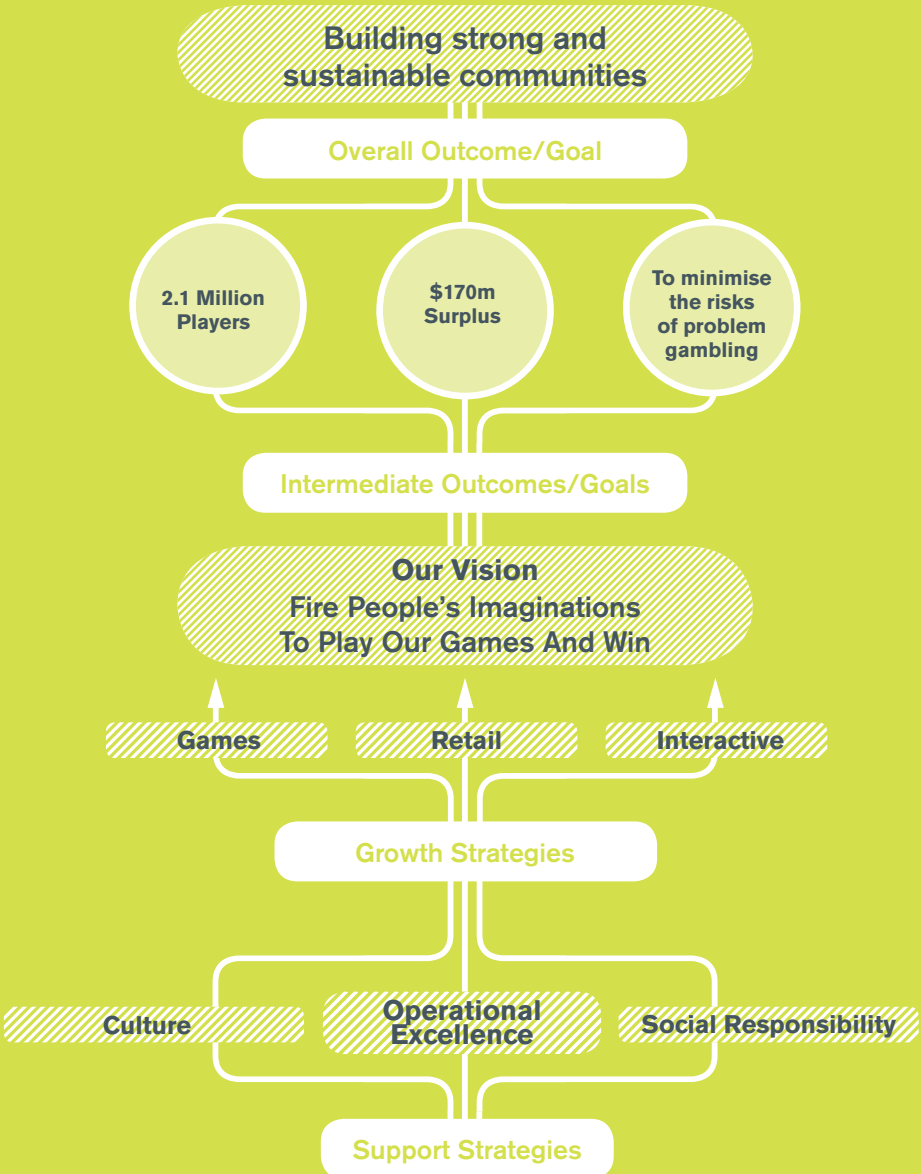
The official cash rate has been at 2.5% since April last year, and the Reserve Bank is expected to start lifting rates from June. The government's tax changes have created uncertainty among property investors, reducing the risk of another housing boom over the next couple of years. The Bank will also be watching the government's May budget, hoping for fiscal parsimony to complement the Bank's role in scaling back stimulus to the economy. The OCR is forecast to reach 4.25% by the end of 2010, with further steady rises throughout 2011 as the economy returns to "normal".

The New Zealand dollar rose 20% on a trade-weighted basis over the year to March 2010, as recovering export commodity prices, increased appetite for risk among international investors, and a solid interest rate gap between New Zealand and the rest of the world combined to boost demand for our currency. Persistent strength in commodity prices and rising domestic interest rates are likely to drive the dollar higher over coming months, before mounting expectations of rate rises offshore see the TWI pull back from its high of around 70 in late 2010 or early 2011. Even then, the drop will be relatively modest, with the TWI easing to 65 by March 2012.

### *Implications for NZ Lotteries*

As spending on NZ Lotteries' products comes from players' discretionary dollars, the economic environment is a huge potential influence on our financial performance. The sales targets we have set for 2010/11 are based, in part, on the recovery in household consumption predictions in this report.

# NZ LOTTERIES' GOALS, OUTCOMES, AND OUTPUTS



## Our Goals and Outcomes

NZ Lotteries' vision is to fire people's imagination to play our games and win.

There is one high level outcome for New Zealand society that we seek to achieve through our own work, and through our key partners the New Zealand Lottery Grants Board, Creative New Zealand, Sport and Recreation New Zealand, and the New Zealand Film Commission. These groups distribute lottery funding to a wide range of community, social, arts, heritage, sports, health and research groups.

### Overall Outcome

To generate improved earnings in order to maximise the contribution we make to building strong and sustainable communities.

### Intermediate Outcomes

We have identified three contributing outcomes that NZ Lotteries' work is directly aimed at achieving, and which contribute to this higher level goal. These are:

- to have 2.1 million customers playing our games regularly each year; and
- to deliver \$170 million back to the community each year; and
- to minimise the risk of any problem gambling and underage gambling associated with our products.

## Growth Strategies

*Games* – we aim to lift our emotional engagement with more New Zealanders and encourage them to enjoy playing our games more frequently.

*Retail* – we aim to have a network of retailers providing convenient access and excellent service for our customers.

*Interactive* – we aim to develop and manage a leading online business.

### Support Strategies

*Operational Excellence* – we will focus on ensuring a robust, high performance operating environment that is supported by appropriate resources, processes, tools and vendors.

*High-Performing Culture* – we will continue to develop a high-performance, values-based culture.

*Corporate Social Responsibility* – we aim to take a leadership position on corporate social responsibility with an emphasis on responsible gambling.

# PERFORMANCE MEASURES

## Financial Performance Targets

	Actual 2008/2009	Estimate <sup>1</sup> 2009/2010	Budget 2010/2011	Projection 2011/2012	Projection 2012/2013
Total sales (\$m) (GST inclusive)	907.7	766.0	825.0	860.0	900.0
Net profit (\$m)	189.3	152.5	155.0	161.5	170.0
Paid to NZ Lottery Grants Board (\$m)	189.3	152.5	155.0	161.5	170.0

## Other Targets

	Actual 2008/2009	Estimate <sup>1</sup> 2009/2010	Budget 2010/2011	Projection 2011/2012	Projection 2012/2013
Unique customer count per month (million) <sup>2</sup>	1.89	1.87	1.95	2.00	2.10
Number of times NZ Lotteries' products are cited as a primary mode of gambling by gamblers who received a full intervention treatment for the first time <sup>3</sup>	240	350	<300	<300	<300

## Capital Expenditure

	Actual 2008/2009	Estimate <sup>1</sup> 2009/2010	Budget 2010/2011	Projection 2011/2012	Projection 2012/2013
Capital expenditure (\$m)	4.8	1.5	7.8	5.0	5.0

1. The 2009/2010 estimate is based on nine months' unaudited actual results and an estimate for April, May and June 2010.
2. Customer count = the number of New Zealanders aged 18 and above who have purchased one or more of NZ Lotteries' products in the last four weeks. Source – Nielsen NRS.
3. Up to five primary modes of gambling may be cited by problem gamblers and affected others. 'Affected others' are clients affected by someone else's gambling. This category includes clients sometimes referred to as significant other or affected other.

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

# OPERATING INTENTIONS

## Strategic Overview

NZ Lotteries has experienced improved performance since 2003, some of which was driven by one-off initiatives such as growing our retail network, introducing a mid-week jackpot game, and introducing our online sales channel, MyLotto. There has also been a focus on widespread incremental improvement – a strategy we have called “focused growth”.

Because of the jackpotting nature of our two main games there is always the possibility of significant revenue variability within a given year. Our focused growth strategy ensures that, as a business, we are putting effort into improving our business across the board, so that if the impact of jackpots was removed we would still be doing better each year. That's important to us not only because it's good practice, but also because jackpots are inherently unpredictable. It will continue to be a key theme in the years ahead.

The introduction of Big Wednesday, and the game changes made to Powerball in 2007, mean that we now have bigger jackpots more often. In the long run these game changes have been extremely beneficial for our business – however, in the short term, we now have much more revenue volatility than we used to have. The 2008/2009 year was a classic example of this, with two 'must be won' weeks producing exceptional sales results.

In the coming three years, we believe there are still many opportunities to improve our business. Foremost, as always amongst our priorities, is to ensure that New Zealanders continue to be inspired each week to play our games. This is not something that we can ever take for granted. Expenditure on our products is largely seen by our customers as being discretionary, and, as such, we are competing with a myriad of other options and doing so in an economic environment that remains challenging.

Our plans for the next three years are designed to keep our brands fresh and interesting to customers. We need to be outstanding at firing people's imaginations to think about what they would do if they won, and then make the process of actually buying a ticket as convenient and enjoyable as possible. In parallel, we look to drive reliability and efficiency improvements across our business operations.

Delivering the following strategy will enable us to meet our community-based outcome goal for the plan period – but will also build strong foundations for growth in the future as well.

## Growth Strategies

### Games and Marketing

We aim to lift our emotional engagement with New Zealanders and encourage them to enjoy playing our games more frequently. This includes:

- ensuring our brands inspire New Zealanders to dream and instil belief in winnability;
- optimising our products;
- simplifying our approach;
- deepening our customer insights; and
- driving greater value out of our investment in advertising.

We are focused on inspiring New Zealanders to play our games more regularly by reigniting their belief that dreams do come true with Lotto.

In order to optimise sales from the existing portfolio of games in the coming three years, we need to drive regular play through stronger emotional engagement with players. We can achieve this desired level of emotional engagement by inspiring New Zealand to keep dreaming through effective new communication campaigns. We will also reinforce New Zealanders' beliefs that dreams do come true, by widely publicising winners' stories.

And, we will work with the NZ Lottery Grants Board to increase awareness of the good lottery grants do in the community, as this is an important aspect of the post-ticket purchase rationalisation by players.

A key barrier for Lotto games is their complexity. We aim to review our product structure, pricing and in-store display with a view to making purchases simpler for our existing customers and to make it easier for new players to enter the game. It has also been three years since we last refreshed our core Lotto family of games for customers, so we plan a major revamp of the game in the coming year in order to simplify the product and improve its engagement with infrequent players. This revamp would include a pricing adjustment to take into account an increase in GST, should that occur.

During the current financial year, an international benchmarking study led to a full scale revamp of Instant Kiwi. The Instant Kiwi relaunch phase will continue into the new financial year with the roll out of a new communication and promotional strategy, all focused on the new ticket designs and better prizes.

### **Retail**

We aim to have a network of retailers providing convenient access and excellent service for our customers. This includes:

- making it easy for customers to buy our products;
- ensuring our retail network delivers a great experience to customers; and
- working with retailers to help them improve the performance of their stores.

The retail network forms the backbone of our business. Although MyLotto's share of revenue is likely to continue to increase, the retail network will remain our dominant channel for the foreseeable future. The retail network, therefore, has a very significant role to play in getting occasional customers to buy our products more often.

Convenient access to our products is a critical factor in play frequency. At the same time, the customer experience in-store must be consistent with the personality of our brands generally and aligned with our overall communications strategy for marketing, public relations, and the online channel.

Our large network of stores has a major role to play in reinforcing the emotional connection with players, and retaining a loyal player base. A strong focus is placed on the in-store customer relationship, ensuring that every point of contact is a positive experience. We are investigating adding digital signage to our high foot traffic stores, in order to provide a more emotionally engaging in-store experience for our customers, and allowing the easy communication of messages about local wins and community grants, and different pricing options.

We are also investigating a more cost-efficient model for selling our products in supermarkets.

### **Interactive**

We aim to develop and manage a leading online business. This includes:

- enhancing the player experience;
- marketing the channel; and
- progressing new games for growth.

Following the successful launch of mylotto.co.nz, our focus has shifted to improving the website play experience and strengthening relationships with our registered players. During the coming year, we will concentrate on improving the existing MyLotto platform for our customers through enhanced usability, experience and accessibility.

Around 60,000 players have signed up to receive a results email for Lotto or Big Wednesday. We plan to use this communication more effectively in the coming year as a way of providing players with relevant game information.

The digital evolution (internet, mobile, interactive TV) has resulted in significant changes in the way that customers can engage with brands (especially the younger generation). This becomes even more important as traditional media become increasingly fragmented and new technologies such as Tivo and MySky change the way in which media is consumed.

Mobile devices are no longer the domain of just voice and text message communication. We now use these devices for a much wider range of functions including email, web browsing and commerce. Additional services and applications are being released on a regular basis, and this is driving a market penetration rate far greater than we saw for internet growth.

Our players are already starting to interact with us via their mobile devices; there were more than 5,500 mobile visits to our corporate website in December 2009 alone. These players are currently unable to access the player website due to its use of flash technology, therefore, we also plan to investigate producing content that is compatible with mobile devices.

Finally, we will continue researching the international growth in the internet gambling category and building our knowledge base on effective controls that minimise the risks of problem gambling online.

## Support Strategies

### *Operational Excellence*

We will focus on ensuring a robust, high performance operating environment that is supported by appropriate resources, processes, tools and vendors. This includes:

- operational management - ensuring the appropriate measures are in place for core system reliability;
- change management – implementing improvements in the delivery of software through a review of roles and responsibilities, processes, documentation and communication;

- vendor management - continuing initiatives to improve project delivery and manage costs with IT partners; and
- information management - better managing internal data to improve productivity and enable better collaboration.

Our core gaming system was introduced in 2006 and was designed with reliability and security in mind. Our online sales channel, with a separate gaming system, was introduced in 2008. We also have two systems within our data centre that are designed to mirror each other for business continuity purposes. A third system, based at another site, is also maintained as further backup for the business.

Ensuring the security and reliability of NZ Lotteries' gaming systems is essential for the integrity of our products, and underpins our entire operation. We are now working in an environment that is significantly more complex than previous years due to the addition of new sales channels and new games.

This output is also a critical enabler of our emphasis on achieving 'focused growth' in our business. It ensures that we have the right operational systems and infrastructure in place to support our business goals, and that we use our data and tools effectively in order to help us run our business more cost efficiently.

Our top priorities are to strengthen our technology foundations, and to continue to enhance our MyLotto platform. At the same time, we will ensure the ongoing reliability of our core gaming systems and minimise unnecessary complexity, cost and risk with IT projects.

More information regarding our technological capability is also detailed in the Organisational Health and Capability section.

## **Culture**

We will continue to develop a high performance, values-based culture. This includes:

- revamping the performance management system;
- putting in place a programme to develop leaders; and
- lifting staff engagement.

NZ Lotteries is a knowledge-based organisation that relies heavily on the efforts, skills and capabilities of its skilled workforce in order to achieve our objectives. A key driver in the success of our business therefore lies in leveraging the greatest value from our workforce – which is why we have strived for a work culture that encourages high performance over mediocrity.

Key to this is ensuring that our people are 'engaged', as considerable research confirms that for an employee to invest more discretionary effort then they must be engaged with the business. Employee engagement is measured by the annual Gallup Engagement Survey which provides useful feedback for NZ Lotteries on areas to address to lift engagement levels.

Initiatives relating to our culture output are detailed in the Organisational Health and Capability section of this report.

## **Corporate Social Responsibility**

We aim to take a leadership position on corporate social responsibility, with an emphasis on responsible gambling. This includes:

- taking a leadership position on responsible gambling;
- reducing our impact on the environment; and
- promoting the community good from lottery grants.

Being socially responsible is integral to our business. It includes how we work with our colleagues, how we design new products and games, how we market and distribute our products, how we work with our retailers, how we manage complaints from customers, how we build our websites, how we deal with our winners, and how we consult with stakeholders.

NZ Lotteries supports programmes that help protect people most at risk through an annual contribution to the Problem Gambling Levy. We will continue to implement and contribute to harm prevention and minimisation initiatives, and to consult with our regulators on game changes and new games.

We have been successful in obtaining Level 2 certification from the World Lottery Association under its Responsible Gaming Framework. We will also continue to be an active member of the Department of Internal Affairs' Stakeholder Reference Group on problem gambling issues, and to participate in sector conferences.

We are working with suppliers on reducing our overall impact on the environment through actions such as consolidating deliveries and choosing more environmentally friendly materials.

We also plan to continue our good working relationship with the NZ Lottery Grants Board, and to ensure our staff, retailers and customers are well informed as to the number and range of lottery grant recipients.

# ORGANISATIONAL HEALTH & CAPABILITY

## Our Staff

NZ Lotteries is committed to being a good employer with a high performance culture. To continue to build and retain a winning team, NZ Lotteries must invest in the development, and retention, of our staff. We aim to provide a professional and supportive work environment with a good work/life balance.

NZ Lotteries' organisational values were driven by staff and used to develop an open and positive culture. NZ Lotteries' values are:

- *Inspire our customers* – We will work to inspire our customers' imaginations and deliver great experiences at every contact point;
- *Do the right thing* – We will be socially responsible and have integrity in everything we do;
- *Dare to dream* – We will promote innovative thinking and believe anything is possible;
- *Chase success* – We will strive for excellence and celebrate our achievements; and
- *One team* – We will respect each other's differences and help each other to achieve our full potential.

We need to be a business that focuses on operational excellence, with our people doing a great job everyday at every touch point.

NZ Lotteries has committed to an annual measurement of employee engagement using the Gallup Q12 questionnaire, which is one of the most widely recognised measures of engagement worldwide.

In 2009, more than 90% of staff participated in the survey which provides useful feedback for NZ Lotteries on areas to address to lift engagement levels.

This year, we will also continue our focus on the implementation of a new performance management framework which emphasises staff achieving individual objectives that are linked back to our overall strategy. It is essential that our resources are directed towards the right outcomes, and this will be an ongoing focus for managers during the coming year.

Additionally, we need to identify our talent, those people that will be the future of NZ Lotteries. We aim to retain them, develop them and encourage them as the future leaders of the organisation. These people will ensure that we continue to be an excellent operator, and that we can build our emotional connection to our customers, retailers and our staff in the future.

Key initiatives include:

- the promotion of organisational values;
- the continuation of a Gallup framework to measure employee engagement;
- encouraging an open and inclusive culture;
- clearer career paths for all people;
- training and professional development for all staff;
- objective reviews of leadership styles;
- regular staff seminars; and
- open internal communications.

## Our Technology

As our business has grown it has become much more complex to run. The most obvious area impacted has been in technology. The introduction of our online sales channel MyLotto required the establishment of a completely new range of capabilities on top of what we already had in place.

NZ Lotteries has more systems, more games, more channels and more staff. As this complexity grows, we as a business need to increase our capability to manage it accordingly.

Key initiatives include:

- ensuring the appropriate measures are in place for core system reliability;
- allocating resources to improvements in the operational environment;
- upgrading our management information systems;
- ensuring "business-as-usual" technology maintenance is taken into account when planning projects;
- reviewing test resourcing against expected volume;
- implementing improvements in the delivery of software through a review of roles and responsibilities, processes, documentation and communication; and
- performing a business-wide review of current and future "Business Intelligence" requirements and identify whether existing systems can be improved to meet them.

# FORECAST SERVICE PERFORMANCE

The functions of NZ Lotteries under the Gambling Act 2003 are as follows:

- to promote, organise, and conduct New Zealand lotteries 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 Act;
- to maximise profits so generated, subject to ensuring that the risks of problem gambling and underage gambling are minimised;
- to make rules regulating the conduct and operation of New Zealand lotteries in accordance with section 243 of the Act; and
- to advise the Minister of Internal Affairs on matters relating to New Zealand lotteries.

The primary measures by which the performance of the first two statutory functions may be assessed are set out in the statement on the following page.

A 'special purpose lottery' under section 245 of the Act can only take place at the instruction of the Minister of Internal Affairs. There have been no special purpose lotteries since NZ Lotteries' inception in 1987.

In respect of NZ Lotteries' third statutory function, the objective is to ensure that any proposed rules for new games, or amendments to rules for existing games, are approved by the Minister of Internal Affairs.

NZ Lotteries will aim to fulfil its fourth statutory function by ensuring that any advice that the Minister seeks regarding New Zealand lotteries is rendered in a professional and timely manner.

## Statement of Forecast Service Performance for the year ending 30 June 2011

Unlike most Crown entities, NZ Lotteries does not receive any Crown funding, and instead is charged with generating income and profit for transferral to the NZ Lottery Grants Board. As such, our service performance is intrinsically tied to our financial performance, primarily our sales and surplus results. These results provide a measurement of how NZ Lotteries has performed towards achieving our outcomes. NZ Lotteries also has four efficiency and productivity measures which provide a benchmark for our performance against those of other lotteries internationally.

Supporting our outcomes, we have two main output classes by which our performance should be measured; our Growth Outputs and our Support Outputs. The information provided in this table reflects the measures NZ Lotteries considers relevant to external stakeholders. They are supported by a detailed internal management key performance measurement framework which NZ Lotteries uses to ensure day-to-day delivery of our outputs and impacts.

## Outcome/Goal Measures

We are estimating sales of approximately \$755 million for 2009/2010, and a distribution to the NZ Lottery Grants Board of \$152.5 million. Despite the launch of a new small game, it has been a challenging year to meet budget, due to a lack of jackpots and generally tighter retail conditions.

As expected, this is below the previous financial year's performance of \$907.7 million and profit transfer of \$189.3 million, which benefited considerably from two 'must be won' jackpot runs. This produced a very considerable boost to sales. However, as the statistical likelihood of such a jackpotting event is once every five years or more, this level of revenue is regarded as being abnormally high.

### Outcome/Goal Measures

	Budget 2010/2011	Projection 2009/2010	Actual 2008/2009
Total sales (\$ million)	825.0	766.0	907.7
Net surplus (\$ million)	155.0	152.5	189.3
Distribution to the NZ Lottery Grants Board (\$ million)	155.0	152.5	189.3
Operating expenses as a percentage of sales	7.0%	7.3%	6.6%

### Efficiency and Productivity Measures

	Budget 2010/2011	Projection 2009/2010	Actual 2008/2009
Sales as a percentage of GDP <sup>1</sup>	0.43%	0.42%	0.50%
Profit as a percentage of GDP	0.13%	0.13%	0.16%
Cents spent to generate one sales dollar	\$ 0.70	\$ 0.70	\$ 0.69
Profit as a percentage of gaming margin	81%	82%	83%

### 2008/2009 Comparison<sup>2</sup>

	Sales as % of GDP	Profit as % of GDP	Cents spent for \$1 sales <sup>3</sup>	Profit as % of gaming margin
New South Wales Lotteries	0.34%	0.10%	\$ 0.72	84%
South Australia Lotteries	0.50%	0.14%	\$ 0.74	83%
California Lottery	0.16%	0.06%	\$ 0.66	85%
Kentucky Lottery	0.50%	0.13%	\$ 0.74	81%
Camelot – UK National Lottery	0.36%	0.13%	£ 0.62	86%

1. NZ GDP (nominal) sourced from NZ Treasury; Australian State GDP (GSP) sourced from Australian Bureau of Statistics; US State GDP (GSP) sourced from [www.usgovernmentspending.com](http://www.usgovernmentspending.com) (2009 estimate); UK GDP sourced from Office of National Statistics (UK).
2. Lottery data sourced from annual reports of included lotteries for 2008/2009 financial year. Reporting periods covered were for July - June financial year except for Camelot which was April - March.
3. Local currency applies to each Lottery – Camelot calculation is pence spent for £1 sales.

## Growth Output Measures

Our growth outputs detail how we plan to build the business and encompass our games and marketing, as well as our retail and online sales channels.

<i>Growth Output Measures</i>	Budget	Projection	Actual
	2010/2011	2009/2010	2008/2009
Unique customer count per month (million) <sup>1</sup>	1.95	1.87	1.89
Complaints upheld by the Advertising Standards Authority	Nil	Nil	1
Number of retail stores at year end	1,055	1,040	1,018
Customer satisfaction rating of their purchase experience <sup>2</sup>	8.5	8.3	8.6
Registered players on interactive site (thousand)	165	132	108
Percentage of registered players who purchased one or more tickets in the last month	40%	34%	55%
Average number of weekly visits to the corporate website (thousand)	219	186	166

1. Number of New Zealanders aged 18 years or older who have purchased one or more NZ Lotteries product in the last four weeks.
2. Customer satisfaction measured in quantitative market tracker. Score is out of 10.

## Support Output Measures

Our support outputs play an integral role in achieving our growth targets. They focus on key business initiatives which underpin the growth outputs. Although they do not directly impact the customer, they are critical enablers of the outputs that do.

### Support Output Measures

	Budget 2010/2011	Projection 2009/2010	Actual 2008/2009
Sales system up-time	99.98%	99.99%	100%
Draws held on time for Lotto, Big Wednesday, Keno, Bullseye and any new games introduced during the year	100%	99.8% <sup>1</sup>	99.4% <sup>2</sup>
Comply with all provisions of the Gambling, Fair Trading, Commerce, and Consumer Guarantees Acts	Full	Not <sup>3</sup> achieved	Full
Percentage of staff turnover	10-15%	17%	18%
Percentage of staff participating in the Gallup survey	>93%	>90%	91%
Percentage of staff with documented and assessed performance plans	100%	90%	n/a
Number of times NZ Lotteries' products are cited as a primary mode of gambling by gamblers and affected others who received full intervention treatment for the first time <sup>4,5</sup>	<300	350	240
Number of online players contacted as a result of their spending habits	<200	179	103
Convictions for the sale of Instant Kiwi games to persons under 18 years	Nil	Nil	Nil

1. Resulting from delays to Big Wednesday draw 201 and Bullseye draw 68.
2. Resulting from delays to Lotto draw 1115, Big Wednesday draw 142 and Keno draws 5753 and 6048.
3. The prize amounts for Division 3, 4, and 5 for the Bullseye draw on 19 October 2009 were incorrectly calculated. The total amount allocated to these divisions was \$19,729 less than the amount calculated in accordance with the Bullseye Rules 2009. The amount of the total prize pool for the draw met the requirements of the Rules. The error was due to an error in the software supplied by NZ Lotteries' gaming system supplier. Systems have been put in place to prevent a similar error occurring in future.
4. Under new methodology used by the Ministry of Health, up to five primary modes of gambling can be cited by a gambler or affected other.
5. 'Affected others' are clients affected by someone else's gambling. This category includes clients sometimes referred to as significant other, or affected other.

# PROSPECTIVE FINANCIAL INFORMATION

The prospective financial statements reflect NZ Lotteries' budget for the year ending 30 June 2011, and the forecast results and financial position for the year ending 30 June 2010. They have been prepared in accordance pursuant to section 142 (1) (a) of the Crown Entities Act 2004.

The budget and forecast have been prepared on the basis of assumptions as to future events that NZ Lotteries' board reasonably expects to occur associated with the actions the board reasonably expects to take as at 1 May 2010. The board is

responsible for the prospective financial statements presented, including the appropriateness of the assumptions underlying the prospective financial statements and all other disclosures.

The forecasts, in respect of the year ending 30 June 2010, incorporate the actual financial results for the nine months to 31 March 2010.

Actual results are likely to vary from the forecasts, and variations may be material.

It is not intended that the forecasts will be updated subsequent to the issue of this Statement of Intent.

## Prospective Income Statement

For the year ending 30 June 2011

	<b>2011 Budget \$'000</b>	<b>2010 Projection \$'000</b>	<b>2009 Actual \$'000</b>
Revenues (note 3)	786,346	736,013	872,666
Cost of Sales (note 4)	573,818	527,313	622,666
<b>Gross profit</b>	<b>212,528</b>	<b>208,700</b>	<b>250,000</b>
<b>Expenses</b>			
Promotion and retail support	24,547	25,625	29,323
Property, plant and equipment depreciation	7,134	4,948	6,148
Computer software amortisation	1,678	1,802	934
Gaming system	5,845	5,401	6,188
Employee benefits	10,584	10,558	10,319
Other	7,740	7,866	7,405
Loss on building revaluation	-	-	402
<b>Total expenses</b>	<b>57,528</b>	<b>56,200</b>	<b>60,719</b>
<b>Profit</b>	<b>155,000</b>	<b>152,500</b>	<b>189,281</b>
Distribution to the New Zealand Lottery Grants Board	155,000	152,500	189,281
<b>Profit after distribution to the New Zealand Lottery Grants Board</b>	<b>-</b>	<b>-</b>	<b>-</b>

The accompanying notes form part of this statement and should be read in conjunction with it.

# Statement of Prospective Movements in Equity

For the year ending 30 June 2011

	2011 Budget \$'000	2010 Projection \$'000	2009 Actual \$'000
Total comprehensive income	-	-	-
<b>Equity at beginning of the period</b>	<b>42,163</b>	<b>42,163</b>	<b>41,713</b>
Net profit for the period as above	-	-	-
Gain on land revaluation	-	-	450
<b>Equity at the end of the period</b>	<b>42,163</b>	<b>42,163</b>	<b>42,163</b>

*The accompanying notes form part of this statement and should be read in conjunction with it.*

# Prospective Balance Sheet

As at 30 June 2011

	2011 Budget \$'000	2010 Projection \$'000	2009 Actual \$'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	58,316	58,200	102,543
Term deposits	25,000	25,000	19,778
Debtors and other receivables	4,224	2,919	4,844
Prepayments	4,400	4,200	5,203
Inventories	2,300	2,200	1,842
<b>Total current assets</b>	<b>94,240</b>	<b>92,519</b>	<b>134,210</b>
<b>Non-current assets</b>			
Property, plant and equipment	21,024	24,265	29,798
Computer software	2,879	2,119	2,665
<b>Total non-current assets</b>	<b>23,903</b>	<b>26,384</b>	<b>32,463</b>
<b>TOTAL ASSETS</b>	<b>118,143</b>	<b>118,903</b>	<b>166,673</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Creditors and other payables	63,550	59,450	88,514
Annuity prize liabilities	850	880	850
Employee entitlements	740	725	635
<b>Total current liabilities</b>	<b>65,140</b>	<b>61,055</b>	<b>89,999</b>
<b>Long-term liabilities</b>			
Annuity prize liabilities	661	849	1,852
Employee entitlements	56	55	54
<b>Total long-term liabilities</b>	<b>717</b>	<b>904</b>	<b>1,906</b>
<b>Prize reserve account</b>	<b>10,123</b>	<b>14,781</b>	<b>32,605</b>
<b>Total liabilities</b>	<b>75,980</b>	<b>76,740</b>	<b>124,510</b>
<b>Equity</b>			
Retained earnings	40,549	40,549	40,549
Asset revaluation reserve	1,614	1,614	1,614
<b>Total equity</b>	<b>42,163</b>	<b>42,163</b>	<b>42,163</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>118,143</b>	<b>118,903</b>	<b>166,673</b>

The accompanying notes form part of this statement and should be read in conjunction with it.

# Statement of Prospective Cash Flows

For the year ending 30 June 2011

	2011 Budget \$'000	2010 Projection \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Ticket sales	783,044	732,998
Net GST received	-	220
Other receipts	5,933	5,629
Prize payments	(470,597)	(438,328)
Lottery duty	(46,624)	(44,577)
Retailers' commission	(56,374)	(52,606)
Employee costs	(10,562)	(10,976)
Other payments	(43,553)	(43,097)
Net cash inflow from operating activities	161,267	149,263
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Sale of property, plant and equipment	100	100
Interest received	2,281	4,186
Increase in term deposits	-	(5,222)
Purchase of property, plant and equipment	(4,370)	(283)
Purchase of computer software	(2,562)	(1,346)
Net cash inflow from investing activities	(4,551)	(2,565)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Discharge of annuity prize liabilities	(1,600)	(1,760)
Payments to the New Zealand Lottery Grants Board	(155,000)	(189,281)
Net cash outflow from financing activities	(156,600)	(191,041)
Net increase in cash balances	116	(44,343)
Opening cash and cash equivalents balance	58,200	102,543
<b>Closing cash and cash equivalents balance</b>	<b>58,316</b>	<b>58,200</b>

*The accompanying notes form part of this statement and should be read in conjunction with it.*

# NOTES TO THE FORECAST FINANCIAL STATEMENTS

## 1. Accounting Policies

### REPORTING ENTITY

These are the New Zealand Lotteries Commission's financial statements. They are prepared subject to the provisions of the Gambling Act 2003 and the Crown Entities Act 2004.

### BASIS OF PREPARATION

#### Accounting compliance

These forecast financial statements comprise prospective financial information and have been prepared in compliance with New Zealand Financial Reporting Standard No. 42 – Prospective Financial Statements (FRS-42).

#### Basis of measurement

The measurement base applied is historical cost modified by the revaluation of certain assets and liabilities as identified in this statement of accounting policies. The accrual basis of accounting has been used unless otherwise stated.

These financial statements are presented in New Zealand dollars rounded to the nearest thousand.

### ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

#### Changes in accounting policies

There have been no changes in accounting policies since the date of the audited financial statements for the year ended 30 June 2009.

#### Comparatives

When presentation or classification of items in the financial statements is amended or accounting policies are changed voluntarily, comparative figures are restated to ensure consistency with the current period.

#### Computer software

Computer software that is not integral to the operation of hardware is recorded at purchase cost less any amortisation and impairment losses. Amortisation is charged to the income statement on a straight line basis over the software's useful life of three to seven years.

The useful life of computer software is reviewed at least annually to determine if there is any indication of impairment. Where any software's recoverable amount is less than its carrying amount, it is reported at its recoverable amount and an impairment loss will be recognised in the income statement.

#### Contingent assets and contingent liabilities

Contingent liabilities are disclosed if the possibility that they will crystallise is not remote. Contingent assets are disclosed if it is probable that the benefits will be realised.

#### Employee entitlements

Obligations for contributions to the defined contribution retirement plan are recognised in the income statement as they fall due.

Employee entitlements to salaries and wages, annual leave, long service leave and other similar benefits are recognised in the income statement when they accrue to employees.

Termination benefits are recognised in the income statement only when there is a demonstrable commitment to either terminate employment prior to normal retirement date or to provide such benefits as a result of an offer to encourage voluntary redundancy.

#### Financial instruments

##### Cash and cash equivalents, and term deposits

Cash and cash equivalents include cash on hand, bank accounts and deposits with maturities of up to three months from acquisition date.

Term deposits represent deposits and other instruments with maturities of more than three months from acquisition date.

It is NZ Lotteries' policy 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. The value of investments held fluctuates as changes in market interest rates occur. However, the extent of such fluctuations in value is limited.

Cash equivalents and term deposits are recorded at cost, adjusted in the case of government stock by the amortisation of any premium or discount included in the purchase price.

#### **Annuity prize liabilities**

These represent prizes payable for Lotto, Winning Wheel, Instant Kiwi and Big Wednesday games where the payments are spread over a period of greater than 12 months from the date the prizes are claimed. These liabilities are initially measured at fair value using the effective interest rate method. Any changes in value are recorded through the prize reserve account.

#### **Foreign currency transactions**

FCT are translated into NZ\$ using the exchange rates prevailing at the dates of the transactions.

#### **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 for games not drawn at balance date, and trade creditors.

#### **Inventories**

Inventories held for sale are recorded at the lower of cost (calculated using the first in, first out (FIFO) method) and net realisable value.

The write-down of inventories to net realisable value is recognised as an expense in the income statement in the period the write-down occurs.

#### **Interest**

Interest income is recognised using the effective interest rate method.

Interest on cash equivalents and term deposits relating to unpaid prizes and the prize reserve account is credited direct to the prize reserve account. Interest on other cash equivalents and term deposits is credited in the income statement.

#### **Judgements and estimations**

In preparing these financial statements, NZ Lotteries has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and judgements are continually evaluated and are based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. There are no estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

#### **Leases**

Operating leases, where the lessor substantially retains the risks and rewards of ownership, are recognised in a systematic manner over the term of the lease. Leasehold improvements are capitalised and the cost is amortised over the unexpired period of the lease or the estimated useful life of the improvements, whichever is shorter. Lease incentives received are recognised evenly over the term of the lease as a reduction in rental expense.

### Prize reserve account

This account is established in accordance with the requirements of the Rules governing the conduct and operation of NZ Lotteries' 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 and interest earned on investments representing prize liabilities. Funds accumulated in this account are used exclusively for the purposes of augmenting the prize pools for various draws and games.

### Property, plant and equipment

Items of property, plant and equipment are initially recorded at cost.

#### Revaluations

Land and buildings are revalued with sufficient regularity to ensure that the carrying amount does not differ materially from fair value and at least every three years. Fair value is determined from market-based evidence by an independent valuer.

The carrying values of revalued items are reviewed at each financial year end to ensure that those values are not materially different to fair value. Additions between revaluations are recorded at cost. Any impairment loss is recognised in the income statement.

#### Additions

The cost of an item of property, plant and equipment is recognised as an asset only when it is probable that future economic benefits or service potential associated with the item will flow to NZ Lotteries and the cost of the item can be measured reliably.

### Disposals

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are included in the income statement.

### Subsequent costs

Costs incurred subsequent to initial acquisition are capitalised only when it is probable that future economic benefits or service potential associated with the item will flow to NZ Lotteries and the cost of the time can be measured reliably. The costs of day-to-day servicing of property, plant and equipment are recognised in the income statement as they are incurred.

### Depreciation

Depreciation of property, plant and equipment, 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 the shorter of the economic life or the relevant lease periods as follows:

Gaming computers, associated equipment and integral software.....	5-7 years
Other computer hardware.....	3 years
Leasehold improvements.....	1-6 years
Draw equipment.....	5 years
Furniture and fittings.....	10 years
Motor vehicles.....	4 years
Office equipment.....	5 years
Building.....	10-50 years

The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each financial year end.

## Revenue and expense recognition

Revenues and corresponding direct expenses for Lotto (including Lotto Strike and Powerball), Keno, Bullseye and Big Wednesday 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

NZ Lotteries is exempt from income tax by virtue of Section 264 of the Gambling Act 2003.

The following taxes are paid by NZ Lotteries:

- Lottery duty of 5.5 cents in the dollar on GST-inclusive sales;
- Problem gambling levy of 0.34 cents (0.20 cents to 30 June 2010) in the dollar on GST-inclusive sales less prizes payable;
- Goods and services tax charged on lottery sales less related prizes payable; and
- Fringe benefit tax.

## 2. Principal assumptions

The principal assumptions made in arriving at the forecasts for the remainder of 2009/2010 and for 2010/2011 are as follows:

- There will be no major outages affecting our lottery systems;
- There will be no changes in lottery duty, taxation for which will continue to be levied on NZ Lotteries on the same basis as at April 2010. Allowance has been made in the financial accounts for a possible change in the GST taxation rate from 12.5% to 15% from 1 October 2010;
- Total retail sales in New Zealand as measured by Statistics New Zealand's Retail Trade Survey will fall slightly during 2010/2011;
- There will be no statistically abnormal series of jackpot runs for Powerball or Big Wednesday; and
- There will be no major global lotteries initiative over the internet during 2010/2011.

### 3. Revenues

	2011 Budget \$'000	2010 Projection \$'000	2009 Actual \$'000
Sales including GST	825,000	766,000	907,710
GST	45,468	37,511	44,161
Sales excluding GST	779,532	728,489	863,549
Other revenue	6,814	7,524	9,117
<b>Total revenues</b>	<b>786,346</b>	<b>736,013</b>	<b>872,666</b>

### 4. Cost of sales

	2011 Budget \$'000	2010 Projection \$'000	2009 Actual \$'000
Lottery duty	45,375	42,130	49,924
Problem gambling levy	1,449	615	796
Retailers' and interactive commission	56,643	52,050	62,192
Prizes paid and payable	431,828	397,981	466,810
Prize reserve account	31,822	29,630	37,089
Ticket costs	6,201	4,482	4,950
Cost of goods sold to retailers	500	425	905
<b>Total cost of sales</b>	<b>573,818</b>	<b>527,313</b>	<b>622,666</b>

# DIRECTORY

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Chris Curley

Richard Holden

Richard Janes

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*Auckland*

Warren Salisbury

**Deputy Chief Executive  
and Chief Financial Officer**

*Wellington*

Karen Jones

**Head of Communications  
and Government Relations**

*Wellington*

Evan Lawrey

**Chief Technology Officer**

*Auckland*

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**General Manager Retail Sales**

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