

# NZ LOTTERIES STATEMENT OF INTENT

FOR THE FINANCIAL YEARS ENDING  
30 JUNE 2012-2014



# Table of Contents

|                    |                          |                            |                       |  |                      |
|--------------------|--------------------------|----------------------------|-----------------------|--|----------------------|
| <b>2</b>           | <b>3</b>                 | <b>6</b>                   | <b>7</b>              | <b>11</b>                                  | <b>14</b>            |
| NZ Lotteries' Role | Supporting the Community | NZ Lotteries' Organisation | Operating Environment | NZ Lotteries' Goals, Outcomes, and Outputs | Operating Intentions |

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 2012, 2013 and 2014. 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  
1 June 2010

**Richard Janes**  
Deputy Chair

**16**

Organisational  
Health &  
Capability

**18**

Forecast Service  
Performance

**20**

Prospective  
Financial  
Information

**24**

Notes to  
the Forecast  
Financial  
Statements

**28**

Directory

# 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, Bullseye, 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 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

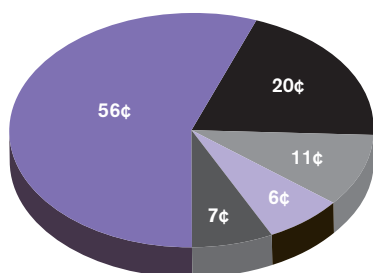
## Where the Money Goes

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 \$2.9 billion to the NZ Lottery Grants Board. About 77% 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 2011

## How Funding is Distributed

Through our transfer to the NZ Lottery Grants Board, 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, filmmakers 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



**NZ Lottery Grants Board**  
TE PUNA TAHUA  
Distributor of NZ Lottery Profits

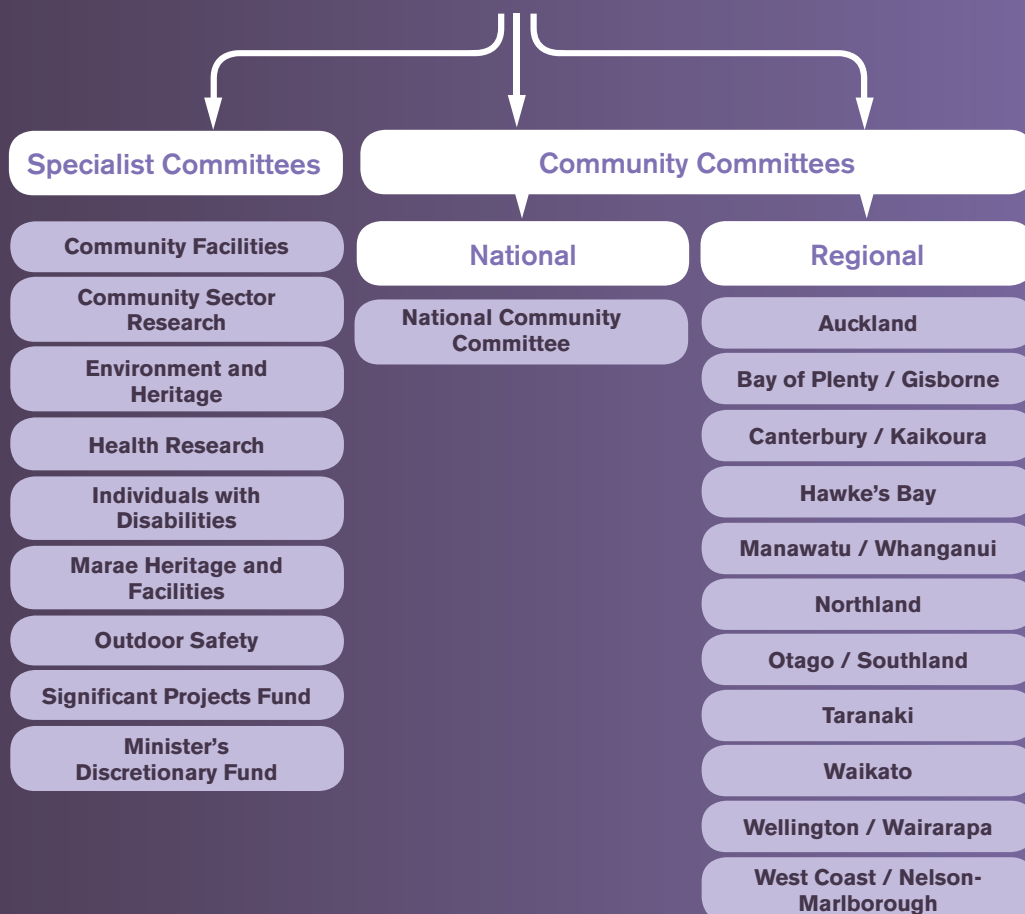
Allocates Funds

**Statutory Bodies**

**Creative New Zealand**

**New Zealand Film Commission**

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



## Lottery Grant Allocations

### NZ Lottery Grants Board Allocations 2010/2011

|  | Total<br>\$        |
|--|--------------------|
| <b>Statutory Bodies</b>                      |                    |
| Creative New Zealand                         | 23,250,000         |
| New Zealand Film Commission                  | 10,850,000         |
| Sport and Recreation New Zealand             | 31,000,000         |
| <b>Total Statutory Bodies</b>                | <b>65,100,000</b>  |
| <b>Community Committees</b>                  |                    |
| National Community Committee                 | 13,943,875         |
| Northland                                    | 1,420,074          |
| Auckland                                     | 7,723,886          |
| Waikato                                      | 2,881,033          |
| Bay of Plenty/Gisborne                       | 2,360,754          |
| Taranaki                                     | 850,732            |
| Hawke's Bay                                  | 1,303,310          |
| Manawatu/Whanganui                           | 1,706,717          |
| Wellington/Wairarapa                         | 2,449,093          |
| West Coast/ Nelson-Marlborough               | 1,411,418          |
| Canterbury/Kaikoura                          | 2,989,861          |
| Otago/Southland                              | 1,817,714          |
| <b>Total Community Committees</b>            | <b>40,858,467</b>  |
| <b>Specialist Committees</b>                 |                    |
| Community Facilities                         | 13,000,000         |
| Community Sector Research                    | 1,750,000          |
| Environment and Heritage                     | 9,148,059          |
| Health Research                              | 3,186,696          |
| Individuals with Disabilities                | 4,415,317          |
| Marae Heritage and Facilities                | 6,885,007          |
| Minister's Discretionary Fund                | 315,000            |
| Outdoor Safety                               | 8,277,941          |
| Applicant GST expenses                       | 600,000            |
| <b>Total Specialist Committees / Funds</b>   | <b>47,578,020</b>  |
| <b>Total Distribution Committees / Funds</b> | <b>88,436,487</b>  |
| <b>Total Allocations</b>                     | <b>153,536,487</b> |

Source: NZ Lottery Grants Board and Department of Internal Affairs

In addition, \$9.48 million was allocated to a new distribution committee, the NZ 2011 Festival Lottery Fund, which was established to support public events and activities associated with the Rugby World Cup 2011.

# 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 the Office of the Controller and Auditor General 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 performance is monitored by way of financial and non 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 who conduct the audit on behalf of the Office of the Controller and Auditor General. 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.

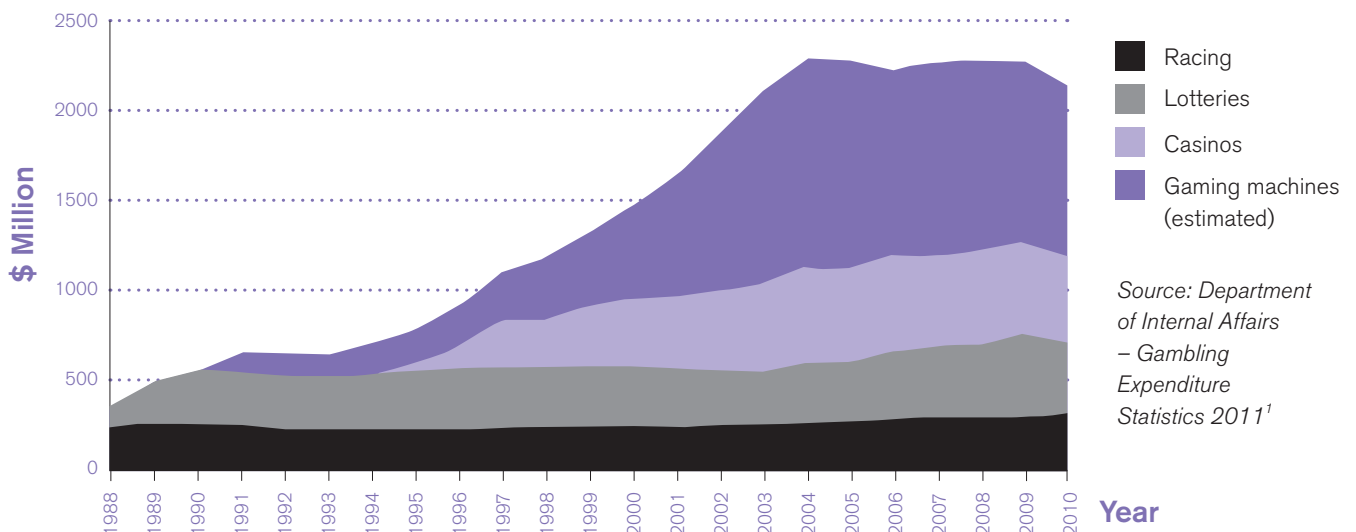
Under the Act, NZ Lotteries may conduct approved forms of remote interactive gambling.

## Competition

Since Lotto was launched twenty-four 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 – 2010**



1 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.

NZ Lotteries' share of the gambling market grew from 14% in 2004 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. Last year, 2010 had a more normal level of sales, resulting in a drop in market share to 18%.

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. 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. However, 2009 and 2010 have seen further decreases in the gambling market. The total gambling market has shrunk by 6% since 2004, disregarding changes in the dollar's purchasing power.

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.

Our research tells us that 86% of New Zealand's adult population – more than 2.8 million New Zealanders – play our games at least once a year.

A change to the methodology for gathering statistics on problem gambling by the Ministry of Health means that more recent data is no longer comparable to previous years. With only two years' of data available since this change, it is difficult to mark a trend in problem gambling associated with our products under the new system. However, at this stage, the number of citations of our products as the primary form of gambling by gamblers and affected others who received full intervention treatment for the first time appears to be steady, with 243 citations in 2008/2009 and 228 in 2009/2010, both amounting to approximately 6% of total new client citations (note, gamblers and affected others can cite up to five primary modes of problem gambling).<sup>2</sup>

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. To receive this certification, WLA members must adopt the organisation's responsible gaming principles. The principles help lotteries assess their responsible gaming programmes and to keep them on a course of continuous improvement. They govern the protection of players, cooperation with stakeholders, research, advertising, the promotion of responsible gaming and the monitoring of gaming activities. Gaining certification at levels 3 and 4 is an expensive exercise, especially for a relatively small lottery such as NZ Lotteries. Few lotteries have attained these high levels, and our view for now is that the benefits of doing so would be outweighed by the cost.

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.

---

2 Ministry of Health, 2010.

---

## 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, have been 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 reached a preliminary stage, but appear to have not progressed past this. However, should they proceed, 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 2010 was an estimated US\$29.95 billion.<sup>3</sup> In contrast, the market in 2007 was estimated to be US\$19.16 billion.<sup>4</sup> This represents an increase of approximately 56% over three years. By way of comparison, the size of the online gambling market now exceeds lottery revenues in the USA.

Overseas internet gambling sites provide 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 2011 for the purpose of assisting NZ Lotteries in its planning for the three years ending 30 June 2014.**

From mid-2010 there was a perceptible loss of confidence among businesses and consumers. The drop in business confidence was symptomatic of how long the sluggish economic conditions, both here and overseas, were lasting. The two key factors depressing consumer confidence were the housing market and the labour market. Indications from the housing market in early 2010 were that momentum was beginning to fade, while the rise in unemployment and reduction in job and income security forced debt-laden households to reassess their

spending. February's earthquake in Christchurch has also had an immediate negative effect on economic activity.

The following is a list of relevant assumptions about the economic outlook.

GDP growth for the March 2011 is estimated to be just 1.0%, and will remain weak until the second half of this year. It has become increasingly clear that the economy needs a catalyst to kick-start a more pronounced and sustained recovery. A range of positive factors, including high export prices, some increase in the willingness of businesses to invest, the Rugby World Cup later this year, and rebuilding work following the Christchurch earthquake, should boost GDP growth from late 2011. GDP growth is forecast to reach 2.3% pa by March 2012 and 4.3% pa by March 2013.

The unemployment rate in the December 2010 quarter was 6.8%. Growth in both employment and hours worked is expected to remain slow during the first half of 2011, as uncertainty surrounding the weak domestic economy keeps businesses cautious about hiring. However, as the Rugby World Cup draws nearer, employment growth is expected to pick up. And with the New Zealand economy strengthening further heading into 2012, employment growth will continue to accelerate, peaking at 3.3% pa in December 2012. The unemployment rate is expected to improve most rapidly during 2012, reaching 5.2% by March 2013.

---

3, 4 H2 Gambling Capital and Gaming Data, 7 January 2011.

---

Household spending stalled over the second half of 2010. Uncertainty about job prospects and the outlook for the housing market were the main drivers of the sudden freeze in spending. The Christchurch earthquake has had a significant negative effect on forecasts of household spending during the next year – most particularly in Canterbury, but there is also likely to be a negative effect on sentiment across the rest of the country. Spending will start to recover from late 2011 thanks to the Rugby World Cup, renewed signs of life in the labour market, and a more stable performance by the housing market. Spending growth will still be a modest 2.3% pa in March 2012, but growth is forecast to accelerate to 3.6% pa by March 2013.

Elevated unemployment levels have put substantial downward pressure on wage growth during the past two years, with growth in average wages easing to 1.9% pa in December 2010, compared to 5.6% pa growth in 2008. Some pick-up in wage growth is likely during 2012 as the rate of hiring by businesses picks up, but wage growth is still expected to average just 3% pa over the next two years. Significant upward pressure on wages is unlikely to emerge again until the unemployment rate is firmly below 5%, which is not currently within our forecast horizon.

The soft patch in economic growth over the second half of 2010 continues to limit the pricing power of firms. The spare capacity in the economy to date means that any price increases have tended to be a reflection of international commodity prices (such as petrol or dairy products), increasing government charges, and fiscal policy changes. Inflation is likely to peak at around 5% pa this year as a result of the GST increase in October 2010, but stronger underlying inflationary pressures may emerge in 2012 as the economic activity accelerates. Resources are likely to be stretched as a result of the rebuilding work required following the Christchurch earthquake, which could push inflation towards 4% pa during 2012.

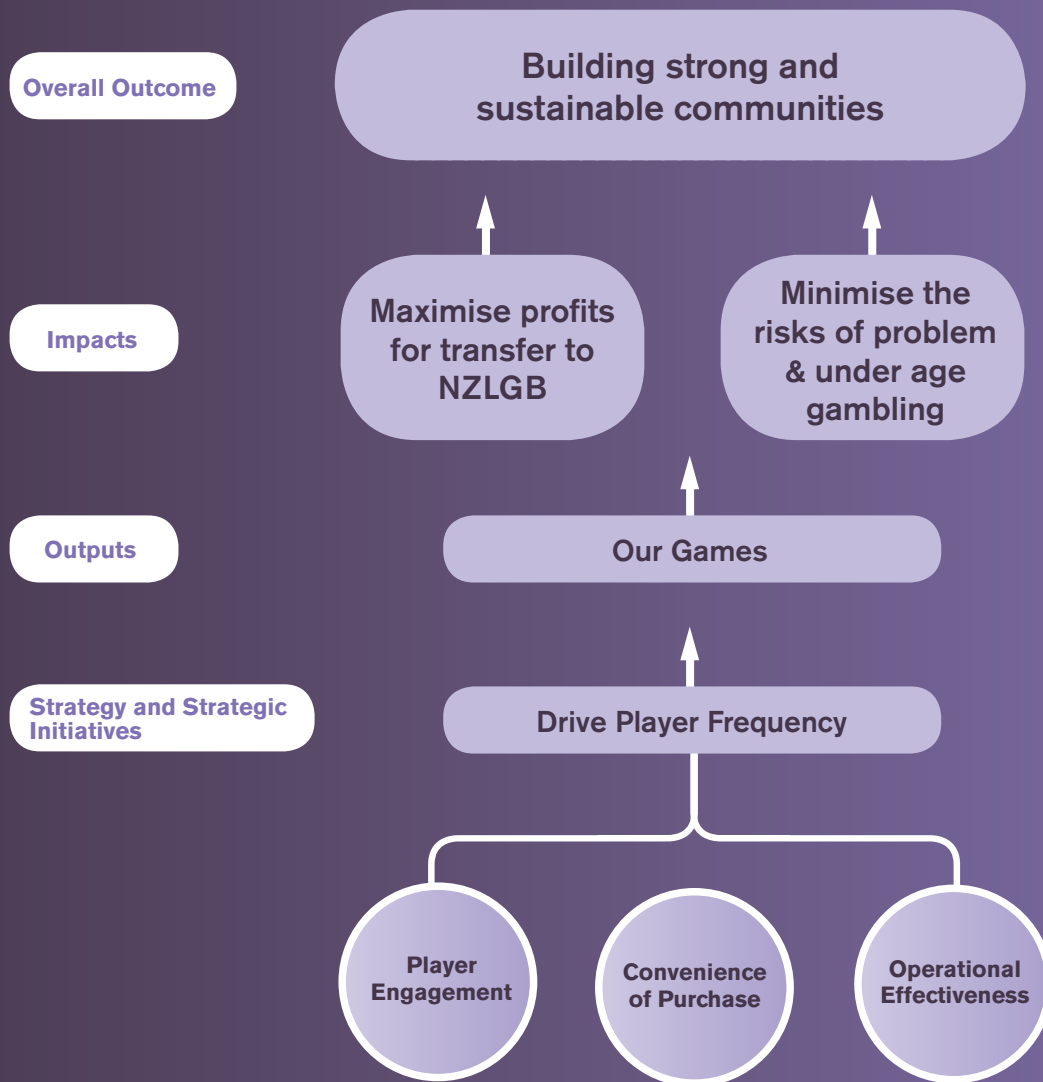
The Christchurch earthquake gave the Reserve Bank the chance to cut interest rates to stimulate economic activity, following the second half of 2010 when labour market data had been poor, economic growth was weaker than expected, and inflationary pressures were essentially absent. The Reserve Bank's stimulatory policy also remains heavily influenced by its expectation that households will keep paying down debt and increasing savings over the medium term. The official cash rate is set to rise again from early 2012 as stronger economic growth quickly absorbs some of the economy's spare capacity. The official cash rate may be as high as 5.5% by the end of 2012, although the extent of that increase in official interest rates may not be translated one-for-one into retail interest rates.

The Christchurch earthquake has reduced the rationale for the near-term strength in the New Zealand dollar. Relative interest rates with the rest of the world have become less favourable for the exchange rate, and New Zealand's disappointing GDP growth also risks undermining the currency. Export commodity prices, which have underpinned some of the dollar's strength, are also likely to peak around mid-2011. These factors may drag the New Zealand dollar down to 65 on a TWI basis this year. But by early 2012, both economic growth and relative interest rates will be improving. In the second half of next year, we see scope for the New Zealand dollar to climb above 70 on a TWI basis.

## 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 2011/12 are based, in part, on the more favourable economic growth scenario outlined in this report. As noted in the prospective financial statements, fluctuations in jackpot cycles can also have a major influence over our sales in any one year.

# NZ Lotteries' Goals, Outcomes, and Outputs



## Our Outcomes and Outputs

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.

### *Impacts*

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

- to maximise profits for transfer to the New Zealand Lottery Grants Board for distribution to the community; and
- to minimise the risk of any problem gambling and underage gambling associated with our products.

### *Outputs*

We have one class of outputs, which consists of 'our games' – through the successful and responsible promotion and running of these games, we will achieve our intended impacts.

### *Strategy and Strategic Initiatives*

Guiding the successful delivery of our outputs, is our overall strategy of driving the frequency by which our players play our games.

Supporting this strategy, we have three key strategic initiatives, which will be the focus of our activity for the coming three years: player engagement; convenience of purchase; and operational efficiency.

### Measuring Success Over the Next Three Years

NZ Lotteries is able to measure its impacts directly through the transfer paid to the NZ Lottery Grants Board each year, and through the number of times (per ten thousand players) that NZ Lotteries' products are cited as a primary mode of gambling by gamblers, and affected others, who receive full intervention treatment for the first time.

We also have a number of measures which provide supporting information to the achievement of these impacts.

#### Overall Impact Measures

|   | Actual<br>2009/2010 | Estimate <sup>1</sup><br>2010/2011 | Budget<br>2011/2012 | Target<br>2012/2013 | Target<br>2013/2014 |
|---|---------------------|------------------------------------|---------------------|---------------------|---------------------|
| <b>Profit maximisation</b>  |                     |                                    |                     |                     |                     |
| Paid to NZ Lottery Grants Board (\$m)   | 165.0               | 180.0                              | 163.4               | 170.0               | 180.0               |
| <b>Harm minimisation</b>  |                     |                                    |                     |                     |                     |
| Number of times NZ Lotteries' products are cited as a primary mode of gambling by gamblers, and affected others, who received a full intervention treatment for the first time – citations per 10,000 players of our games <sup>2</sup> | 1.11                | <1.50                              | <1.50               | <1.50               | <1.50               |

#### Supporting Measures

|   | Actual<br>2009/2010 | Estimate <sup>1</sup><br>2010/2011 | Budget<br>2011/2012 | Target<br>2012/2013 | Target<br>2013/2014 |
|---|---------------------|------------------------------------|---------------------|---------------------|---------------------|
| Total sales (\$m) (GST inclusive)                                       | 782.3               | 911.6                              | 860.0               | 900.0               | 950.0               |
| Net surplus (\$m)   | 159.0               | 180.0                              | 163.4               | 170.0               | 180.0               |
| Operating expenses as a percentage of sales                             | 7.1%                | 6.5%                               | 6.9%                | 6.8%                | 6.7%                |
| Count of players who purchased in the last year (million) <sup>3</sup>  | 2.71                | 2.56                               | 2.60                | 2.60                | 2.60                |
| Count of players who purchased in the last month (million) <sup>3</sup> | 2.06                | 2.00                               | 2.00                | 2.05                | 2.10                |
| Count of players who purchased in the last week (million) <sup>3</sup>  | 1.49                | 1.48                               | 1.55                | 1.65                | 1.75                |

- 1 The 2010/2011 estimate is based on 10 months' unaudited actual results and an estimate for May and June 2011.
2. 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. There were 243 citations in 2008/2009 and 228 in 2009/2010.
3. The number of New Zealanders aged 18 and above who have purchased one or more of NZ Lotteries' products in the period cited. Source – The Research Agency.

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

# Operating Intentions

## Strategic Overview

Since 2003, NZ Lotteries has had a track record of growth in revenue and profitability.

Over recent years, we have focused on ensuring our products appeal to as many New Zealanders as possible, and on making the purchasing experience easy and accessible.

Our brands are very high profile and embedded in the Kiwi psyche, with 86% of New Zealand adults playing one of our games at least once a year.

Having people like our brands is only half the picture. Over a number of years, we have worked on making it easier for people to buy our products. The starting point for this was a large expansion in the number of retail outlets selling our products between 2003 and 2006. More recently, we have worked to simplify our pricing and product information. Our online channel, MyLotto, continues to grow and now accounts for almost 5% of lottery game revenue.

Behind the scenes, the growth in the number of transactions and expansion in our channels has placed additional demands on our support services. Our focus has been on ensuring that we deliver the maximum operational reliability and system integrity at the minimum level of cost.

Going into the 2011/2012 year, our business is in good shape. Our brands are strong, our sales are high, and our retailers and staff are engaged. We think there is significant opportunity to grow our business further by continuing to focus on the elements that have worked for us so far. But for the next three years, we plan to be very specific about the strategic outcome we want – and that is to drive an increase in player frequency.

Having so many New Zealanders like, and play, our games is an excellent starting point. But our research has shown that many of our players are irregular in their purchasing behaviour. Periodically, they are drawn to our games, often because of a high jackpot on offer. These customers then play for a week or so and then revert to not playing. There is an opportunity for us to increase revenues by getting these players to play at lower jackpot levels, or to play more often.

Of course, we cannot take the loyalty of our most regular players for granted. We will continue to focus on engaging all customers – regular and irregular players alike. However, in the coming three years, we will be supporting our overall strategy with a number of new specific business initiatives to encourage our irregular players to play more often as well.

## Strategic Initiatives

We have three key business priorities in working to achieve our desired impact of transferring at least \$170 million in 2011 terms to the New Zealand Lottery Grants Board.

### Player Engagement

The first of our three strategic initiatives is focussed on driving player frequency through keeping our players engaged with our games.

In the coming years, we will ensure that our brands continue to be positioned favourably in our customers' minds. The Lotto family of games (Lotto, Powerball and Strike) is in good shape – although there is still more we plan to do to promote the community benefits resulting from Lotto play and increasing the perception of winnability.

Our other major jackpotting weekly game, Big Wednesday, is in need of a revamp. Its current advertising and prize line up have remained unchanged for two years and are starting to look a little tired. The game's base week sales have stagnated and the game is in need of a revamp in order to lift customer engagement. As the average prize on offer in Powerball has increased over time, the relative attractiveness of Big Wednesday's prizes has deteriorated and the game is losing its core players. It is essential that we make Big Wednesday a more attractive playing proposition.

Instant Kiwi was relaunched in 2010 and this was successful in generating additional sales. However, we now need to focus on improving the profitability of this product for our business. We would also like to be able to offer our Instant Kiwi product in an online format. We view Instant Kiwi as a recruiter brand for our products and this brand has particular appeal to the under 35 year old market in this regard. These younger players have grown up with the internet and it is the centre point for their entertainment and social activities. We will continue to work closely with our regulator and the Government to see if we can make progress in this area in the years ahead. Bullseye, our daily numbers game, has underperformed since launch and will be revamped to make it more appealing. We will also be rolling out a digital signage network to more than 600 of our top stores. This will enable us to communicate much more engaging messages to customers at the critical point of sale area.

## Convenience of Purchase

Our second strategic initiative to drive player frequency is convenience of purchase.

We need to make it as easy as possible for people to buy our products. In this regard, we will work with any of our retail partners who have ideas on how we can do this in their stores. Currently, we are investigating whether there are more efficient ways to sell our products in supermarkets.

By international standards, we have a small number of retail outlets in relation to population. We have the opportunity to grow sales – mainly by increasing play frequency – by going into more stores.

In the years ahead, we will also be looking at ways to make it easier to buy our product in our major urban areas – where our distribution footprint has been eroding over time.

We are also planning a major overhaul of our website mylotto.co.nz. Our current site offers a player experience that is not up to current standards. Technological limitations also mean that it does not enable people to play on certain mobile devices such as iPhones. The new site will be easier to use and able to be accessed by a much larger variety of devices. It's also being developed so that future functions, such as subscriptions, can be added at a later date.

Finally, we will be undertaking a refurbishment of our external Lotto store signs. Many of these signs have been in place for five or more years and are now weathered and outdated.

## Operational Efficiency

Our third priority focuses on operational efficiency. As always, we need to ensure that our business continues to run reliably and efficiently. In the coming year, we will initiate some key work streams to improve our operational effectiveness.

Some of the projects in this work stream are complex. For example, we are conducting a major review of how we evolve our gaming system. Technology is changing so rapidly that we need to find a way to upgrade component parts of the system in a more efficient manner. This should give us both operational cost savings, and increase the reliability of our technology platforms.

Another stream of work will evaluate more effective ways to back up our core gaming system, to ensure ongoing business continuity if our Auckland location became inoperable.

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

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

Ensuring our staff are engaged with our business and our culture is key to delivering our future strategic initiatives. NZ Lotteries is a knowledge-based organisation that relies heavily on the efforts, skills, and capabilities of a relatively small skilled workforce.

NZ Lotteries needs to be a business that focuses on operational excellence, with our people doing a great job at every touch point. Key to this is ensuring that our people are engaged, as considerable research confirms that for an employee to invest more discretionary effort, they must be engaged with the business.

Our performance management framework works to emphasise 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 continue to be an ongoing focus for managers. The system ensures every employee has clear and aligned goals, and that they receive regular feedback on their performance. As a values-based organisation, we care not only about what people achieve, but also about how they achieve it, and this now forms an important part of the review model.

Employee engagement is measured by the annual Gallup Engagement Survey. This is one of the most widely recognised measures of engagement worldwide, and in 2010 more than 90% of staff participated in the survey, providing useful feedback for NZ Lotteries on areas to address to lift engagement levels. We will continue to push hard to create a better workplace, leaning in particular on the results from the Gallup Employee Engagement Survey to guide us.

Additionally, we will continue 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.

One of our underlying principles has been to do as much as we can without increasing the proportion of revenue that we spend on running the business, and that we strive to keep headcount levels at around the same levels they are now. The exception to the latter is when we chose to move outsourced activities, such as the corporate systems helpdesk, back in-house.

Key staff health and capability 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, and more sales channels. 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;
- performing a review of the gaming system provider partnership and identifying initiatives to improve delivery and costs;
  - investigating a solution to improve records management to improve productivity and to enable better collaboration;
  - investigating a retailer management platform; and
  - performing a business-wide review of current and future "Business Intelligence" requirements and identifying whether existing systems can be improved to meet them.

# Forecast Service Performance

## Statement of Forecast Service Performance for the year ending 30 June 2012

Our outputs are our games, and so we have just one output class on which to report. 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.

|   | Actual<br>2009/2010       | Projected <sup>1</sup><br>2010/2011 | Budget<br>2011/2012 |
|---|---------------------------|-------------------------------------|---------------------|
| <b>Overall Impact Measures</b>  |                           |                                     |                     |
| Paid to NZ Lottery Grants Board (\$m)   | 165.0                     | 180.0                               | 163.4               |
| Number of times NZ Lotteries' products are cited as a primary mode of gambling by gamblers, and affected others, who received a full intervention treatment for the first time – citations per 10,000 players of our games <sup>2</sup> | 1.11                      | <1.50                               | <1.50               |
| <b>Main Supporting Measures</b>   |                           |                                     |                     |
| Total sales (\$m) (GST inclusive)   | 782.3                     | 911.6                               | 860.0               |
| Net surplus (\$m)   | 159.0                     | 180.0                               | 163.4               |
| Operating expenses as a percentage of sales   | 7.1%                      | 6.5%                                | 6.9%                |
| Count of players who purchased in the last year (million) <sup>3</sup>  | 2.71                      | 2.56                                | 2.60                |
| Count of players who purchased in the last month (million) <sup>3</sup>   | 2.06                      | 2.00                                | 2.00                |
| Count of players who purchased in the last week (million) <sup>3</sup>  | 1.49                      | 1.48                                | 1.55                |
| <b>Secondary Supporting Measures</b>  |                           |                                     |                     |
| Overall brand health – momentum / affinity <sup>4</sup>   | 29% / 29%                 | 37% / 34%                           | 39% / 33%           |
| Number of retail stores at year end   | 1,038                     | 1,045                               | 1095                |
| Complaints received regarding retailers   | 91                        | <65                                 | <100                |
| Number of registered players on interactive site who purchased in the last month  | 41,860                    | 53,890                              | 64,000              |
| Gaming network downtime (hours)   | 1.85                      | 0.10 <sup>5</sup>                   | <1.25               |
| Interactive system downtime (hours)   | 1.30                      | 0.17                                | <1.25               |
| Televised draws held on time  | 99% <sup>6</sup>          | 99% <sup>7</sup>                    | 100%                |
| Compliance with all provisions of the Gambling, Fair Trading, Commerce, and Consumer Guarantees Acts  | Not Achieved <sup>8</sup> | Full                                | Full                |
| Percentage of online players contacted as a result of their spending habits   | 0.11%                     | <0.10%                              | <0.10%              |
| Convictions for the sale of Instant Kiwi games to persons under 18 years  | Nil                       | Nil                                 | Nil                 |
| <b>Other Measures</b>   |                           |                                     |                     |
| Sales as a percentage of GDP <sup>9</sup>   | 0.41%                     | 0.46%                               | 0.41%               |
| Profit as a percentage of GDP <sup>9</sup>  | 0.13%                     | 0.14%                               | 0.12%               |
| Cents spent to generate one sales dollar <sup>10</sup>  | 70                        | 69                                  | 70                  |
| Profit as a percentage of gaming margin   | 82%                       | 82%                                 | 82%                 |
| Percentage of staff turnover  | 14%                       | 19%                                 | <20%                |
| Percentage of staff participating in the Gallup survey  | 98%                       | 96%                                 | >95%                |
| Percentage of staff with documented and assessed performance plans  | 90%                       | 90%                                 | 95%                 |
| Complaints upheld by the Advertising Standards Authority  | Nil                       | Nil                                 | Nil                 |

- 1 The 2010/2011 projection is based on 10 months' unaudited actual results and an estimate for May and June 2011.
2. 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. There were 243 citations in 2008/2009 and 228 in 2009/2010.
3. The number of New Zealanders aged 18 and above who have purchased one or more of NZ Lotteries' products in the period cited. Source: The Research Agency.
4. Overall brand health is measured by momentum and affinity weighted by brand according to each brand's share of sales for the year. Momentum is percentage of New Zealanders who believe brand is "really on the way up" or "on the way up". Affinity is the percentage of New Zealanders who believe brand is "a game for me". Source: The Research Agency.
5. Outages resulting from the Christchurch earthquakes were excluded.
6. Technical issues caused delays to the following draws during the year: the Big Wednesday draws on 26 August 2009 and 14 April 2010 and the Bullseye draw on 26 December 2009. All issues were resolved and the draws successfully completed. The Big Wednesday draws were completed within fifteen minutes of their scheduled draw times, while the Bullseye draw took place two hours after the scheduled draw time. The integrity of the draws was not affected.
7. Big Wednesday draw held on 25 August 2010 was delayed due to the prearranged screening of a netball test match. The Big Wednesday draw on 23 February took place on time but was not televised due to coverage of the Christchurch earthquake.
8. The calculation of some of the prizes in the first Bullseye draw, held on 19 October 2009, was incorrect resulting in 103 prizes being underpaid by a total of \$1,102. This was the result of an error in the gaming software system written by GTech that was not detected by our QA testing. The incident was fully reported to the Minister, officials from his department, and Audit New Zealand. Remedial measures have been put in place.
9. NZ GDP (nominal) sourced from NZ Treasury.
10. Sales including GST. Costs include prizes, commission and expenses.

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

---

## Prospective Financial Information

The prospective financial statements reflect NZ Lotteries' budget for the year ending 30 June 2012, and the forecast results and financial position for the year ending 30 June 2011. They have been prepared in accordance pursuant to section 142 (1) (a) of the Crown Entities Act 2004 and were authorised for issue by the NZ Lotteries board on 25 May 2011. The purpose of the prospective financial statements is to facilitate Parliament's consideration of the planned performance of NZ Lotteries. Use of this information for other purposes may not be appropriate.

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 2011. 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 2011, incorporate the actual financial results for the ten months to 30 April 2011.

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 Statement of Comprehensive Income

For the year ending 30 June 2012

|  | 2012<br>Budget<br>\$'000 | 2011<br>Projection<br>\$'000 | 2010<br>Actual<br>\$'000 |
|--|--------------------------|------------------------------|--------------------------|
| Revenues (note 3)  | 818,940                  | 870,307                      | 752,707                  |
| Cost of Sales (note 4)   | 596,387                  | 631,261                      | 538,375                  |
| <b>Gross profit</b>  | <b>222,553</b>           | <b>239,046</b>               | <b>214,332</b>           |
| <b>Expenses</b>  |                          |                              |                          |
| Promotion and retail support   | 24,078                   | 26,119                       | 24,823                   |
| Property, plant and equipment depreciation   | 8,279                    | 6,662                        | 6,308                    |
| Computer software amortisation   | 2,137                    | 1,322                        | 749                      |
| Gaming system  | 5,601                    | 6,323                        | 6,327                    |
| Employee benefits  | 11,125                   | 10,575                       | 9,886                    |
| Other  | 7,935                    | 8,028                        | 7,238                    |
| <b>Total expenses</b>  | <b>59,155</b>            | <b>59,029</b>                | <b>55,331</b>            |
| <b>Profit</b>  | <b>163,398</b>           | <b>180,017</b>               | <b>159,001</b>           |
| Distribution to the New Zealand Lottery Grants Board   | 163,398                  | 180,017                      | 165,001                  |
| <b>Total comprehensive income after distribution to the New Zealand Lottery Grants Board</b> | <b>-</b>                 | <b>-</b>                     | <b>(6000)</b>            |

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

## Prospective Statement of Movements in Equity

For the year ending 30 June 2012

|   | 2012<br>Budget<br>\$'000 | 2011<br>Projection<br>\$'000 | 2010<br>Actual<br>\$'000 |
|---|--------------------------|------------------------------|--------------------------|
| Total comprehensive income after distribution to the New Zealand Lottery Grants Board | -                        | -                            | (6,000)                  |
| <b>Equity at beginning of the period</b>  | <b>36,163</b>            | <b>36,163</b>                | <b>42,163</b>            |
| Total comprehensive income for the period as above                                    | -                        | -                            | (6,000)                  |
| <b>Equity at the end of the period</b>  | <b>36,163</b>            | <b>36,163</b>                | <b>36,163</b>            |

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

## Prospective Statement of Financial Position

As at 30 June 2012

|                                     | 2012<br>Budget<br>\$'000 | 2011<br>Projection<br>\$'000 | 2010<br>Actual<br>\$'000 |
|-------------------------------------|--------------------------|------------------------------|--------------------------|
| <b>ASSETS</b>                       |                          |                              |                          |
| <b>Current assets</b>               |                          |                              |                          |
| Cash and cash equivalents           | 69,195                   | 77,125                       | 77,223                   |
| Term deposits                       | 22,000                   | 20,000                       | 16,745                   |
| Debtors and other receivables       | 6,090                    | 4,264                        | 1,609                    |
| Prepayments                         | 6,300                    | 6,200                        | 3,416                    |
| Inventories                         | 2,525                    | 2,500                        | 1,950                    |
| <b>Total current assets</b>         | <b>106,110</b>           | <b>110,089</b>               | <b>100,943</b>           |
| <b>Non-current assets</b>           |                          |                              |                          |
| Property, plant and equipment       | 21,214                   | 19,687                       | 24,177                   |
| Computer software                   | 4,473                    | 5,991                        | 2,355                    |
| <b>Total non-current assets</b>     | <b>25,687</b>            | <b>25,678</b>                | <b>26,532</b>            |
| <b>TOTAL ASSETS</b>                 | <b>131,797</b>           | <b>135,767</b>               | <b>127,475</b>           |
| <b>LIABILITIES</b>                  |                          |                              |                          |
| <b>Current liabilities</b>          |                          |                              |                          |
| Creditors and other payables        | 69,000                   | 69,169                       | 68,153                   |
| Annuity prize liabilities           | 400                      | 455                          | 700                      |
| Employee entitlements               | 725                      | 700                          | 697                      |
| <b>Total current liabilities</b>    | <b>70,125</b>            | <b>70,324</b>                | <b>69,550</b>            |
| <b>Long-term liabilities</b>        |                          |                              |                          |
| Annuity prize liabilities           | 301                      | 756                          | 1,212                    |
| Employee entitlements               | 53                       | 50                           | 49                       |
| <b>Total long-term liabilities</b>  | <b>354</b>               | <b>806</b>                   | <b>1,261</b>             |
| <b>Prize reserve account</b>        | <b>25,155</b>            | <b>28,474</b>                | <b>20,501</b>            |
| <b>Total liabilities</b>            | <b>95,634</b>            | <b>99,604</b>                | <b>91,312</b>            |
| <b>Equity</b>                       |                          |                              |                          |
| Retained earnings                   | 34,549                   | 34,549                       | 34,549                   |
| Asset revaluation reserve           | 1,614                    | 1,614                        | 1,614                    |
| <b>Total equity</b>                 | <b>36,163</b>            | <b>36,163</b>                | <b>36,163</b>            |
| <b>TOTAL LIABILITIES AND EQUITY</b> | <b>131,797</b>           | <b>135,767</b>               | <b>127,475</b>           |

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

## Prospective Statement of Cash Flows

For the year ending 30 June 2011

|  | 2012<br>Budget<br>\$'000 | 2011<br>Projection<br>\$'000 |
|--|--------------------------|------------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>      |                          |                              |
| Ticket sales                                     | 807,765                  | 859,384                      |
| Net GST received                                 | -                        | -                            |
| Other receipts                                   | 6,335                    | 5,996                        |
| Prize payments                                   | (470,808)                | (513,790)                    |
| Lottery duty                                     | (48,783)                 | (50,780)                     |
| Retailers' commission                            | (58,134)                 | (61,996)                     |
| Employee costs                                   | (11,097)                 | (10,956)                     |
| Other payments                                   | (44,185)                 | (47,347)                     |
| Net cash inflow from operating activities        | 181,093                  | 180,511                      |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>      |                          |                              |
| Sale of property, plant and equipment            | 100                      | 100                          |
| Interest received                                | 4,025                    | 4,510                        |
| Increase in term deposits                        | (2,000)                  | (3,255)                      |
| Purchase of property, plant and equipment        | (9,906)                  | (2,301)                      |
| Purchase of computer software                    | (619)                    | (4,958)                      |
| Net cash inflow from investing activities        | (8,400)                  | (5,904)                      |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>      |                          |                              |
| Discharge of annuity prize liabilities           | (456)                    | (456)                        |
| Payments to the New Zealand Lottery Grants Board | (180,167)                | (174,249)                    |
| Net cash outflow from financing activities       | (180,623)                | (174,705)                    |
| Net increase in cash balances                    | (7,930)                  | (98)                         |
| Opening cash and cash equivalents balance        | 77,125                   | 77,223                       |
| <b>Closing cash and cash equivalents balance</b> | <b>69,195</b>            | <b>77,125</b>                |

The net GST component of operating activities reflects the net GST paid to, or received from, the Inland Revenue Department.

The net term deposits component of investment activities reflects the term deposits placed less than the amounts maturing during the year.

To provide more meaningful information for financial statement purposes, GST and term deposits components have been presented on a net basis.

*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 2010.

#### *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**

Foreign currency transactions 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 | 4-7 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 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 2010/2011 and for 2011/2012 are as follows:

- There will be no major outages affecting our lottery systems.
- There will be no changes in lottery duty or taxation which will continue to be levied on NZ Lotteries on the same basis as at May 2011.
- Total retail sales in New Zealand as measured by Statistics New Zealand's Retail Trade Survey will increase slightly during 2011/2012.
- There will be no statistically abnormal series of jackpot runs for Powerball or Big Wednesday. Major variations in jackpotting behaviour may have a significant effect on actual financial results.
- There will be no major global lotteries initiative over the internet during 2011/2012.

### 3. Revenues

|                       | 2012<br>Budget<br>\$'000 | 2011<br>Projection<br>\$'000 | 2010<br>Actual<br>\$'000 |
|-----------------------|--------------------------|------------------------------|--------------------------|
| Sales including GST   | 860,000                  | 911,597                      | 782,306                  |
| GST                   | 49,220                   | 49,344                       | 38,261                   |
| Sales excluding GST   | 810,780                  | 862,253                      | 744,045                  |
| Other revenue         | 8,160                    | 8,054                        | 8,662                    |
| <b>Total revenues</b> | <b>818,940</b>           | <b>870,307</b>               | <b>752,707</b>           |

### 4. Cost of sales

|                                       | 2012<br>Budget<br>\$'000 | 2011<br>Projection<br>\$'000 | 2010<br>Actual<br>\$'000 |
|---------------------------------------|--------------------------|------------------------------|--------------------------|
| Lottery duty                          | 47,300                   | 50,138                       | 43,027                   |
| Problem gambling levy                 | 1,283                    | 1,365                        | 647                      |
| Retailers' and interactive commission | 58,594                   | 61,988                       | 53,133                   |
| Prizes paid and payable               | 448,870                  | 478,456                      | 405,564                  |
| Prize reserve account                 | 33,777                   | 33,493                       | 30,120                   |
| Ticket costs                          | 5,863                    | 5,170                        | 5,157                    |
| Cost of goods sold to retailers       | 700                      | 651                          | 727                      |
| <b>Total cost of sales</b>            | <b>596,387</b>           | <b>631,261</b>               | <b>538,375</b>           |

# Directory

## Auckland Office

117 Khyber Pass Road,  
PO Box 8929 Symonds Street,  
Auckland  
Telephone 09-356 3800  
Facsimile 09-366 1605

## Wellington Office

54-56 Cambridge Terrace  
PO Box 3145  
Wellington  
Telephone 04-802 7000  
Facsimile 04-385 2787

## Christchurch Office

66-68 Mandeville Street  
PO Box 8609  
Riccarton  
Christchurch

**Website:** [www.mylotto.co.nz](http://www.mylotto.co.nz)

**Email:** [info@nzlotteries.co.nz](mailto:info@nzlotteries.co.nz)

## Board Members:

Judy Kirk  
**Chair**  
Richard Janes  
**Deputy Chair**  
Miranda Burdon  
Richard Holden  
Tony Mossman

## Senior Management:

Todd McLeay  
**Chief Executive**  
*Auckland*  
Karen Jones  
**Head of Communications  
and Government Relations**  
*Wellington*  
Evan Lawrey  
**Chief Technology Officer**  
*Auckland*  
Chris Lyman  
**General Manager Retail Sales**  
*Auckland*  
Wendy Rayner  
**Head of Marketing**  
*Auckland*  
Warren Salisbury  
**Chief Financial Officer**  
*Wellington*





[www.mylotto.co.nz](http://www.mylotto.co.nz)

**New Zealand Lotteries Commission**

+64 (4) 802 7000 TEL

+64 (4) 385 2787 FAX

54-56 Cambridge Terrace

PO Box 3145, Wellington, New Zealand

117 Khyber Pass Road,

PO Box 8929, Symonds Street, Auckland, New Zealand