



# NZ LOTTERIES

## STATEMENT OF INTENT

FOR THE FINANCIAL YEARS ENDING **30 JUNE 2010-2012**





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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 2010, 2011 and 2012. 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**



Laura Humphreys  
**Deputy Chair**

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**TERM  
INFORMATION**

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# 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 GOAL

Our primary goal is to continue to generate improved earnings so that we are able to maximise the contribution we make to numerous New Zealand communities. At the same time, the incidence of any problem gambling and underage gambling associated with our products will be minimised. We aim to achieve this by creating winning outcomes for all our stakeholders – our customers, our shareholder the Government, our retail network and other business partners, and our staff.

## 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 (which incorporates Winning Wheel), NZ Lotteries' other products are Lotto Powerball, Lotto Strike, Big Wednesday, 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 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.

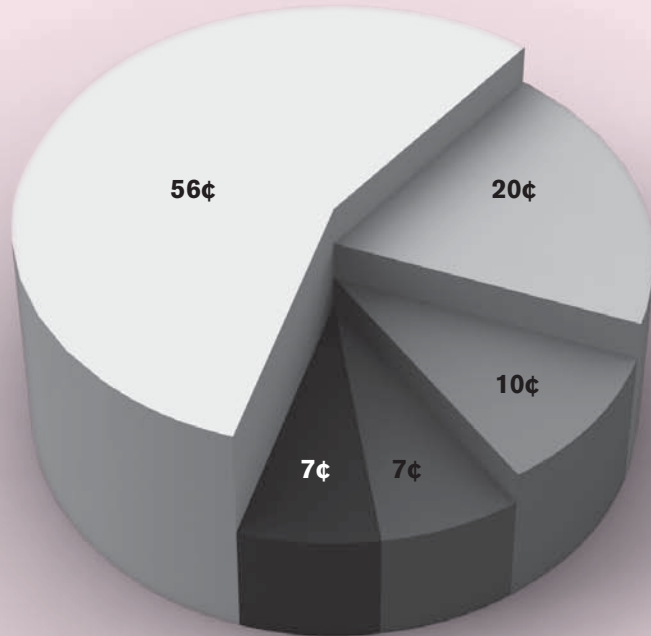


Figure 1

### HOW NZ LOTTERIES' MONEY IS SPENT\*

□ PRIZES	■ OPERATING COSTS (EXPENSES)
■ NZ LOTTERY GRANTS BOARD	■ RETAILER COMMISSION
■ TAXES (INCLUDES GST, GAMING DUTY AND PROBLEM GAMBLING LEVY)	

\* For every \$1 from combined sales. Based on forecast results for the year ending 30 June 2009

### SUPPORTING THE COMMUNITY

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 \$2.5 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.

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 3,000 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.

### NZ LOTTERY GRANTS BOARD ALLOCATIONS 2008/2009

	\$
<b>STATUTORY BODIES</b>	
Creative New Zealand	22,125,000
NZ Film Commission (NZFC)	9,587,500
NZ Film Archive (via NZFC)	737,500
Sport and Recreation New Zealand	30,890,000
<b>TOTAL STATUTORY BODIES</b>	<b>63,340,000</b>
<b>COMMUNITY COMMITTEES</b>	
National Community Committee	13,443,875
Northland	1,420,074
Auckland	6,897,768
Waikato	2,605,021
Bay of Plenty/Gisborne	2,335,225
Taranaki	850,732
Manawatu/Whanganui	1,525,045
Hawke's Bay	1,303,310
Wellington/Wairarapa	2,218,101
West Coast/ Nelson-Marlborough	1,411,418
Canterbury/Kaikoura	2,617,120
Otago/Southland	1,804,291
<b>SUBTOTAL</b>	<b>38,431,980</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
Pacific Provider Development Fund	500,000
Significant Projects	16,000,000
Applicant GST expenses	1,000,000
<b>SUBTOTAL</b>	<b>64,478,020</b>
<b>TOTAL</b>	<b>166,250,000</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 Company Monitoring Advisory 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 and chief financial officer 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 board has two committees: an Audit and Risk Committee and a Remuneration Committee.

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

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

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# THE NEW ZEALAND GAMBLING ENVIRONMENT

## PUBLIC PERCEPTIONS OF NZ LOTTERIES

NZ Lotteries has a well established history and presence in New Zealand society. After more than twenty-two years of operation, the public view NZ Lotteries, and our flagship product Lotto, as iconic and trusted kiwi brands.

We are a New Zealand gambling operator with a pure community-benefit funding model and are well known as a source of community grants. This model means that we are perceived differently from other gambling operators.

## 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.

The Act established the Gambling Commission and disestablished the Casino Control Authority whose residual functions were integrated into the functions of the Department of Internal Affairs and the Gambling Commission. The Act provided that no new licences for casinos would be issued.

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.

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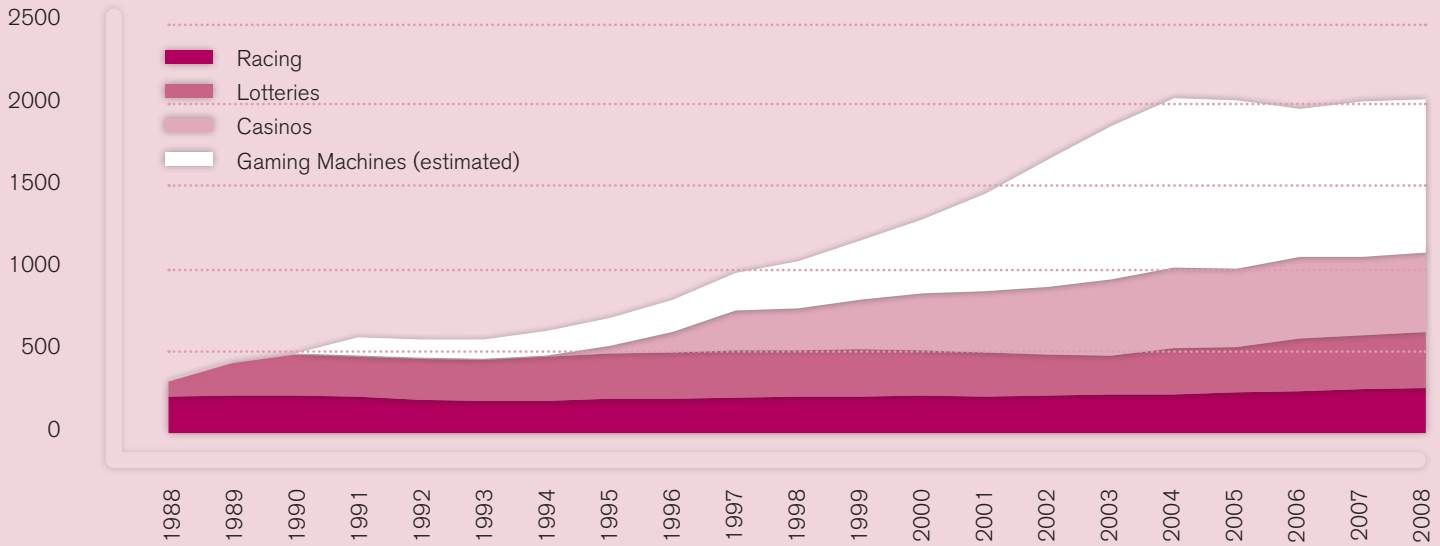


Figure 2:

Source: Department of Internal Affairs – Gambling Expenditure Statistics 2008<sup>1</sup>

## NEW ZEALAND GAMBLING MARKET EXPENDITURE 1988 – 2008

### COMPETITION

Since Lotto was launched twenty-two years ago, the gambling market in New Zealand has grown rapidly and overall consumer participation has increased significantly. 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*.

In 2004, expenditure on NZ Lotteries' products increased to 14% of total gambling expenditure, the first time it had increased since 1994. Expenditure in the New Zealand gambling market as a whole grew by 9% in that year.

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.

Expenditure on NZ Lotteries' products increased from 14% of overall expenditure in 2005 to 17% in 2008. In comparison, gaming machines outside casinos still accounted for just under half the total gambling expenditure in New Zealand – over two and a half times more than spending on NZ Lotteries' products.

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

### ECONOMIC ENVIRONMENT

**The following is a report provided by Infometrics in April 2009 for the purpose of assisting NZ Lotteries in its planning for the three years ending 30 June 2011.**

After peaking at 3.7%pa in September 2007, New Zealand's economic growth has slowed continually over the last 18 months. Quarterly growth was negative throughout the 2008 calendar year, dragging year-ended economic activity down by 1.6% over 2008. The real effects of America's financial market meltdown have spread across the entire world, with China and the developing Asian economies failing to escape the fall-out. Uncertainty is a significant constraining factor on household spending and business investment, and sizeable declines will occur in both variables over the next 12 months as a level of uncertainty persists. However, the significant monetary and fiscal stimulus that is being put in place should underpin a moderate recovery in New Zealand's economic growth over 2010/11.

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

Uncertainty and poor international demand conditions will dominate the economic environment in the near term, creating a weak economic outlook for 2009. By the second half of this year, quarterly growth is expected to have returned to positive territory, but it will be mid-2010 before the consequences of the stimulus really start to hit home. Economic growth over the March 2010 year is forecast to be just 0.6%pa, accelerating to 3.2%pa by March 2011.

The unemployment rate has climbed from 3.4% to 4.6% since December 2007. Although annual employment growth has stayed positive, the total number of hours worked by employees has fallen sharply over the last year (down 2.8%). The decline in total hours worked is the first indicator of the significant labour market weakness that will occur over

<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.

the next 18 months. Firms will become more willing to lay off staff, and the unemployment rate will rise to a peak of 7% by the end of 2009. However, the performance of the labour market is expected to improve over the year to March 2011 as the domestic economy begins to recover, with the unemployment rate dipping back below 5.5% by early 2010.

Private consumption rose 0.1% over the 2008 calendar year – the slowest rate of growth since September 1992. However, this slowdown appears to be only the start of a much larger slump in consumption activity. The combination of falling household wealth (largely due to falling house prices), tight lending conditions, and a sharp easing in the labour market will see private consumption fall by a total of 2% by March 2010. In per capita terms, this will be the largest decline since 1976. Spending growth will recover into 2011 and 2012, but growth will be slower than in the first half of this decade as households look to improve their savings habits.

Growth in the disposable income of households will weaken, but remain positive, over the next year. Falling taxes and interest payments will help to bolster incomes in the face of falling employment levels and softening wage growth. Growth in real disposable incomes is forecast to bottom out at 1.3%pa this year, before accelerating through to mid-2011. Nevertheless, uncertainty surrounding future income prospects will discourage consumers from increasing spending over the next 12 months.

Headline inflation climbed as high as 5.1%pa in 2008, driven by a substantial increase in petrol prices. However, inflation is expected to average below 2%pa over the next two years. This easing reflects a sustained drop in non-tradable inflation to rates not seen since 2002, caused by a severe contraction in aggregate demand and increasing spare capacity in the economy. In the near-term, tradable price pressures will be relatively strong due to the lower New Zealand dollar, maintaining some cost pressures on firms.

The official cash rate has been slashed from 8.25% to 3% since July last year. The OCR is expected to fall to between 2.0–2.5% in the first half of

2009. This easing will produce at least a 200 basis point reduction in the effective mortgage rate, with room for more as global funding pressure eases. Interest rate increases will be fairly aggressive from March 2010 as the Reserve Bank pushes the OCR back to a more neutral 5.5%.

The New Zealand dollar trade-weighted index has fallen 28% over the last year and is now 31% below the peak reached in July 2007. Positive factors for the currency, such as high export commodity prices and relatively high interest rates in New Zealand, have disappeared. A solid bottom for the TWI is unlikely to occur until the Reserve Bank signals that interest rate cuts are over, and financial markets gain confidence that the world recession is coming to an end. We expect the TWI to bottom out at around 49 before a recovery begins in late 2009, pulling the TWI back up to 62 by March 2011.

### 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. A widespread reduction in overall consumer spending will have a negative effect on our sales. This statement of intent outlines a number of initiatives in response to the change in New Zealand's economy.

### INTERNATIONAL BENCHMARKING

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

In its June 2009 issue, *Casino Journal* assesses all 43 US state lotteries on a series of effectiveness and efficiency measures. Instead of the

usual per-capita comparisons, *Casino Journal* uses aggregated personal-income figures for each US state to calculate the percentage of personal income spent on lottery sales.

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

NZ Lotteries ranked as follows for the 2007/2008 financial year:

**1. Effectiveness and market-penetration measure:**

Fiscal 2007/2008 sales as a per cent of US state personal income. *NZ Lotteries comparative ranking is 11th at 0.58%. (9th in 2006/2007)*

**2. Fiscal effectiveness measure:**

Fiscal 2007/2008 government revenue as a per cent of US state personal income. *NZ Lotteries comparative ranking is 11th at 0.18%. (11th in 2006/2007)*

**3. Efficiency measure:**

Ranked by cents spent to generate one sales dollar in fiscal 2007/2008\*. *NZ Lotteries comparative ranking is 32nd at 14.9 cents. (29th in 2006/2007)*

\* Economies of scale, population density, the percentage of rural and urban outlets, the amount of competition, commission fees, as well as telecommunications, advertising, and office accommodation costs all affect the relative cost structures of different lotteries.

**4. Fiscal efficiency measure:**

Fiscal 2007/2008 revenue generated for community and government as a per cent of gross revenue (sales minus prizes)\*. *NZ Lotteries comparative ranking is 23rd at 68.8%. (26th in 2006/2007)*

\* This measure uses gross revenue figures, and so evens out the effect of lower prize payouts between lotteries.

**TECHNICAL NOTES TO THIS PARTICULAR INTERNATIONAL BENCHMARKING COMPARISON:**

- US state personal income figures were for the calendar year 2008.
- US state lotteries' revenue and expense results were predominantly for the year to 30 June 2008.
- New Zealand personal income figures are consistent with the definition used for US personal income figures. They were derived from Statistics New Zealand's Household Income and Outlay Account for the year to 31 March 2008.
- NZ Lotteries' revenue and expenses were for the year to 30 June 2008. GST has been treated as being fully paid to the government. However, NZ Lotteries receives credits of approximately \$10 million because of the GST it pays on services from its suppliers. These credits have been treated as being ultimately paid to the government by those suppliers

# NZ LOTTERIES' STRATEGIC PRIORITIES

## STRATEGIC OVERVIEW

Since 2003, NZ Lotteries has undergone a significant transformation both in terms of its revenue generation and also in its underlying business infrastructure.

Consequently, the business has achieved strong growth in its top line revenues and net surplus, culminating in a record \$156.8 million contribution to the NZ Lottery Grants Board in 2007/2008. This is \$49 million (45.5%) more than the amount transferred in 2002/2003.

Since 2007, NZ Lotteries has adopted a strategy of making smaller incremental changes to our games and operations in order to produce sustainable improvements in our results. This strategy is summarised as 'focused growth'.

This strategy is a reflection of our operating parameters. We work within a specific range of activities – but we also seek opportunities to continually improve and grow our business.

This approach has proved commercially successful for NZ Lotteries since it was implemented, and has delivered record sales and increased profits available for distribution back to the community.

We intend to follow this broad strategic approach over the next few years, although the environment in which we operate has clearly changed, due to tighter economic conditions. This environment has been reflected in our short term business priorities and a new emphasis on controlling our costs. However, even in a tighter economic environment, we believe there are opportunities to improve and build our business.

## OUR BUSINESS GOALS

Our key business goals to achieve by 2011/2012 are:

- to have 2.1 million customers playing our games regularly; and
- to deliver \$175 million back to the community each year.

The unpredictable nature of jackpots can have a major influence on year-to-year revenue for NZ Lotteries. And, like all retail businesses, revenues are affected by the state of the domestic economy.

However, we aim to achieve these goals by growing our net surplus by around 3% on average each year over the next three years.

## OUR MISSION

NZ Lotteries sells a unique product set. Our products are intangible in nature and rely on the establishment of a strong emotional connection with our customers. Our underlying mission, and the link between our goals and our business strategies, is therefore:

**To fire people's imagination to play and win**

## OUR BUSINESS STRATEGIES 2009/2010

### Growth Strategies

#### *Games and Marketing*

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

- ensuring our brands continue to be loved by New Zealanders;
- expanding our game portfolio to broaden our player base;
- revamping Instant Kiwi;
- deepening our customer insights; and
- driving greater value out of our investment in advertising.

#### *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.

**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.

**Support Strategies****Operational Excellence**

We will focus on improved system and process reliability whilst ensuring value for money from suppliers and projects across the business.

This includes:

- doing more with less;
- driving core IT system reliability improvement;
- leveraging technology to improve productivity; and
- improving service quality.

**Culture**

We will continue to develop a high performance culture. This includes:

- revamping the performance management system;
- putting in place a programme to develop leaders; and
- reviewing our structure.

**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.

**OPERATING INTENTIONS****Games and Marketing**

We are focusing on connecting more New Zealanders with games they love to play each week. This involves creating compelling communications and product offers for our current games portfolio, and driving growth through the launch of exciting new products.

Following the successful revamp of Big Wednesday and Instant Kiwi advertising during 2008, this coming year will see a new campaign for the Lotto family of brands. We believe it is important to refresh our communications strategy, in particular our approach to Lotto advertising, to ensure our brands are in tune with the current mood of New Zealanders in these tougher economic times.

In addition, we wish to introduce smaller, lower cost, new games to the market in order to generate more excitement and interest for customers. These games will be designed to spark interest from our infrequent lottery players. It is proposed that the first of these new games will be launched in late 2009.

Compelling communications and promotional offers will also assist us in retaining existing players; however, we need to take steps to address the portfolio trend of declining play frequency. Building on our insights and understanding of our players, we plan to investigate initiatives to encourage player loyalty as well as product enhancements to ensure that we retain our existing player base.

**Retail**

Our retail strategy is aimed at ensuring we have a network of retailers located in the right places, that consistently delivers an excellent standard of customer service. This includes ensuring that our retail environment reflects our desired brand values. We also retain our focus on ensuring a high level of integrity regarding the selling and validation of tickets in-store.

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 therefore placed on the in-store customer relationship, ensuring that every point of contact is a positive experience.

We will also continue to make the most of retail outlets in our key partner stores, ensuring we build upon the strong relationships already in place. Our retail development plan will evolve utilising the extensive data available to ensure our network reach is optimised.

**Interactive**

Following the successful launch of NZ Lotteries' online sales platform, mylotto.co.nz, our focus has now shifted to improving the website play experience and strengthening relationships with our registered players.

We shall continue to research the international growth in the internet gambling category and build our knowledge base on effective online controls that minimise the risks of problem gambling online. We will use this knowledge to work on the development of new, more interactive games which we hope will be offered through the MyLotto platform. This will involve working closely with our regulators, the Ministry of Health and the Department of Internal Affairs.

**Support Strategies**

Ensuring the security and reliability of NZ Lotteries' gaming systems is essential for the integrity of our products, and underpins our entire operation. A critical enabler of our emphasis on achieving 'focused growth' in our business is our operational excellence strategy. 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 effectively.

Our people are a major strength, and we will continue to develop our values-based culture and to foster leadership and coaching skills. This year we will be implementing a revamped performance management framework which focuses more closely on staff achieving individual objectives that are linked back to our overall strategy.

Our sixth strategy relates to corporate social responsibility. The legislation that governs us makes our social responsibilities very clear. We have a statutory duty to maximise profit whilst minimising harm from problem gambling.

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.

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 range of lottery grant recipients.

## NZ LOTTERIES' ORGANISATIONAL HEALTH & CAPABILITY

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.

In 2006/2007, NZ Lotteries introduced new organisational values that were driven by staff and we are now using these values 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.
- *One team* – We will respect each other's differences and help each other to achieve our full potential.

We are also focusing on fostering strong leadership and coaching skills so that each employee has the support they require to succeed in their role.

Initiatives to ensure NZ Lotteries is meeting its obligations to manage organisational health and capability include:

- the promotion of organisational values;
- the adoption 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.

## RESPONSIBLE PLAY

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.

Since 2007, we have incorporated this commitment to minimise these risks as one of NZ Lotteries' core business support strategies. This recognises the serious impact that problem gambling behaviour has on individuals, families and communities. NZ Lotteries and its retail network are committed to conducting all aspects of lottery business in a professional and responsible manner. All efforts are made to provide a safe, friendly and responsible play environment that adheres to legislative and regulatory requirements.

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. Problem gambling figures for the 2007 year show that 21, or 1.2%, of the 1,812 gamblers who received face-to-face counselling for the first time cited our products as their primary mode of gambling. This is on par with 2006 when 23, or 1.2%, of the 1,880 gamblers who presented for face-to-face counselling for the first time, cited our products as their primary mode of gambling.<sup>3</sup>

NZ Lotteries supports programmes that help protect people most at risk through an annual contribution to the Problem Gambling Levy.

NZ Lotteries 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, and will continue to participate in problem gambling conferences. We will continue to be an active member of the Ministry of Health and Department of Internal Affairs' joint Stakeholder Reference Group on problem gambling issues.

Initiatives to ensure NZ Lotteries' harm prevention and minimisation responsibilities under the Act are met include:

- ongoing consultation with the Ministry of Health, the Department of Internal Affairs, and problem gambling service providers on issues around preventing and minimising harm, particularly for new games;
- the continuation of a harm minimisation framework used to review all Instant Kiwi tickets during the ticket design process;
- attendance at World Lottery Association seminars on responsible gaming;
- periodic reviews of our Code of Practice for Responsible Play and its companion brochure that are carried in all lottery outlets, are on our website, and are integrated into retail network training programmes;
- continued vigilance to ensure compliance with the age restriction for playing Instant Kiwi, supported by in-store communications and training;
- continue to display a Responsible Play mark on our website, all MyLotto sales pages, corporate collateral and at point of sale;
- continued representation on the Ministry of Health and Department of Internal Affairs' joint Stakeholder Reference Group on problem gambling; and
- providing player safety controls for registered MyLotto players.

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

3. Problem Gambling Intervention Services in New Zealand: 2007 Service-user Statistics, Public Health Intelligence Monitoring Report No. 18, Ministry of Health, August 2008.

# NZ LOTTERIES' PERFORMANCE MEASURES

## Financial Performance Targets

	Actual 2007/2008	Estimate* 2008/2009	Budget 2009/2010	Projection 2010/2011	Projection 2011/2012
Total sales (\$m) (GST inclusive)	778.0	810.0	770.0	825.0	885.0
Net profit (\$m)	156.8	164.7	152.5	163.5	175.0
Paid to NZ Lottery Grants Board (\$m)	156.8	164.7	152.5	163.5	175.0

## Other targets

	Actual 2007/2008	Estimate* 2008/2009	Budget 2009/2010	Projection 2010/2011	Projection 2011/2012
Unique customer count per month (million)**	n/a	1.86	1.77	1.95	2.10

## Capital expenditure

	Actual 2007/2008	Estimate* 2008/2009	Budget 2009/2010	Projection 2010/2011	Projection 2011/2012
Capital expenditure (\$m)	4.8	2.4	5.1	5.0	5.0

\* The 2008/2009 estimate is based on 9 months' unaudited actual results and an estimate for April, May and June 2009.

\*\* 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.

### Note:

1. All financial information is GST exclusive unless described otherwise.

# ANNUAL INFORMATION

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;
- 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.

# PERFORMANCE TARGETS FOR THE 2009/2010 YEAR

## STATEMENT OF FORECAST SERVICE PERFORMANCE FOR THE YEAR ENDING 30 JUNE 2010

	Budget 2009/2010	Projection 2008/2009	Actual 2007/2008
<b>Financial</b>			
Total sales (\$ million)	770.0	810.0	778.0
Net surplus (\$ million)	152.5	164.7	156.8
Distribution to the NZ Lottery Grants Board (\$ million)	152.5	164.7	156.8
Operating expenses as a percentage of sales	7.3%	7.2%	7.3%
<b>Operational</b>			
Unique customer count per month (million)	1.77	1.36	n/a
Number of retail stores at year end	1,050	1,020	997
Customers satisfied with their purchase experience	88%	86%	86%*
Sales system up-time	99.7%	100%	99.92%
Registered players on interactive site (thousand)	110	78	29.5
Percentage of registered players who purchased one or more tickets in the last month	40%	38%	n/a
Problem gamblers seeking face-to-face counselling for the first time citing NZ Lotteries' products as their primary gambling mode	<100	<100	21
Convictions for the sale of Instant Kiwi games to persons under 18 years	Nil	Nil	Nil
Draws held on time for Lotto, Big Wednesday, Keno and any new games introduced during the year	100%	99.4%**	100%
Comply with all provisions of the Gambling, Fair Trading, Commerce, and Consumer Guarantees Acts	Full	Full	Not achieved***
Complaints upheld by the Advertising Standards Authority	Nil	1	Nil

\* Based on face-to-face customer interviews conducted in-store by an independent research firm. Of the remaining 14%, 10% said they were neither satisfied nor dissatisfied.

\*\* Resulting from delays to Lotto draw 1115, Big Wednesday draw 142, and Keno draws 5753 and 6048.

\*\*\* A programming error resulted in the incorrect calculation of division three and four prizes for the Lotto draw conducted on 24 November 2007. The total amount allocated to these divisions was \$340,548 which is \$3,955 less than the amount calculated in accordance with the Lotto Rules 2000. The amount of the total prize pool for the draw met the requirements of the Rules. Additional procedures have been put in place to prevent a similar error occurring in the future.

# FINANCIAL TARGETS FOR THE 2009/2010 FINANCIAL YEAR

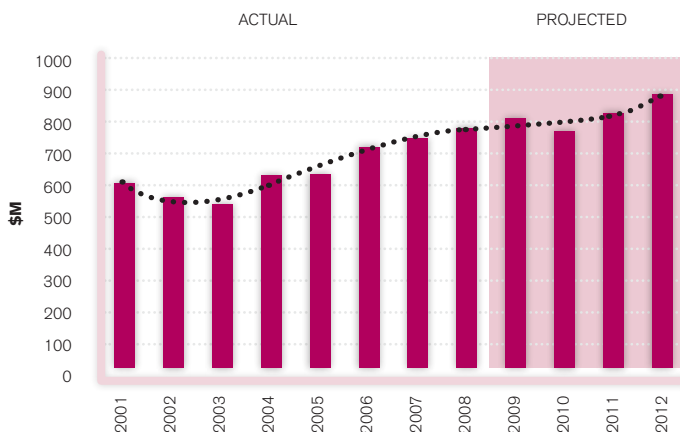
## KEY FINANCIAL OBJECTIVES

Our budget for 2009/2010 is based on realistic objectives given the unpredictability of Powerball and Big Wednesday's jackpotting cycles. Large prize jackpots create sizeable increases in sales and earnings.

NZ Lotteries' key financial objectives for the 2009/2010 financial year are:

- to achieve gross sales of \$770 million;
- to achieve a net surplus of \$152.5 million; and
- to transfer \$152.5 million to the NZ Lottery Grants Board.

## SALES 2001 - 2012



An unprecedented 16-week Powerball jackpot run, which culminated in a \$30 million 'must be won' jackpot in October 2008, has helped boost sales considerably with the result for 2008/2009 expected to reach \$810 million, an increase of 4.1% on 2007/2008.

The Powerball jackpot generated around \$45 million in extra sales for NZ Lotteries.

However, as the statistical likelihood of such a jackpotting event is once every four to five years, this level of revenue can be regarded as being abnormally high.

Spending on our products comes from consumers' discretionary dollars and competition includes fast food, movies, magazines etc. As such, the overall health of the country's economic and retail environment influences our financial performance.

Foremost of all the environmental factors affecting our business is, therefore, the current tight economic situation. Whilst we have maintained a good level of sales during the latter part of 2008 and into 2009, a widespread reduction in overall consumer spending will have a negative effect on our sales.

We have, therefore, taken a prudent approach and are budgeting sales of \$770 million for 2009/2010 – the same as our budget for 2008/2009. The actual outcome could be better, but much will depend on the state of the domestic economy and Powerball and Big Wednesday's jackpotting behaviour.

We expect our core Lotto family of brands (Lotto, Powerball and Strike) will hold up better than many other brands in a tighter retail environment due to their core values of optimism and fun, and their ability to offer dreams of a better life for many kiwis.

However, our other product mainstays of Big Wednesday and Instant Kiwi may find the going tougher. The line up of luxury prizes offered by Big Wednesday may be considered a little too 'ostentatious' in the current environment. Instant Kiwi is bought on impulse more than our other products and customers may now have less discretionary income for such purchases.

We plan a number of initiatives in response to this situation. Firstly, this coming year will see a new campaign for the Lotto family of brands. We believe it is important to refine our communications strategy, in particular for Lotto, to ensure we are accurately reflecting the current attitude of New Zealanders in these challenging economic times.

In addition, we aim to introduce a smaller, lower cost, new game to the market in order to generate more excitement and interest from customers in our game portfolio. This should help to shore up sales in the second half of 2009/2010, but we are not expecting a major boost to revenues from this source.

We will also focus on revamping Instant Kiwi, with a full review of its distribution model and product range, in order to ensure that we are optimising the potential of this game.

Our primary sales channel remains our retail network. During the year, we will be ensuring we have a network of retailers located in the right places, which delivers a consistent and excellent standard of customer service. This includes ensuring that our retail environment reflects our Lotto brand values.

Following the launch of our online sales platform, our focus has now shifted to improving the website play experience. With the proposed launch of a new small lottery game during the year, we will also work to ensure an online version is incorporated into the MyLotto website.

These initiatives are key to achieving our objective of maximising our contribution to the New Zealand community. At the same time, we will continue to promote policies and practices, such as our Responsible Play Code of Practice and in-store training, that ensure we meet the Gambling Act's requirement to minimise the risk of problem and under-age gambling.

## EARNINGS

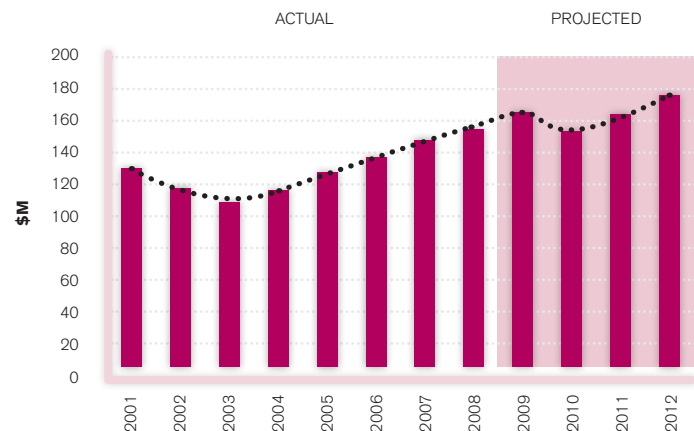
Earnings in 2008/2009 are projected to be around \$164.7 million, \$12.2 million (8%) ahead of budget and \$7.9 million (5%) more than in 2007/2008. There has been a significant boost to profitability as a result of the Powerball jackpot run through to the \$30 million 'must be won' draw. For 2009/2010, our budgeted earnings (based on sales of \$770 million) are \$152.5 million – the same as the budget for 2008/2009. Sundry income will fall substantially because of the decline in interest rates.

However, a drive for greater efficiency in cost savings across the board will offset this. Even though depreciation and amortisation charges will increase by over \$1 million on the projected figure for 2008/2009, mainly in relation to capital expenditure on our IT platform, we expect total operating expenses to decrease by \$1.8 million (3.1%) to \$56.3 million.

In last year's statement of intent, the budgeted transfer to the NZ Lottery Grants Board for 2008/2009 was \$152.5 million and the transfer projected for 2009/2010 was \$157.0 million – a total for the two years of \$309.5 million.

Given the current economic environment, it would not now be prudent to set the budget for 2009/2010 at \$157.0 million. However, if the budget for the year of \$152.5 million is attained and the projection of \$164.7 million for 2008/2009 is realised, over the two years a total of \$317.2 million will have been transferred to the NZ Lottery Grants Board for distribution to the community. This is \$7.7 million more than was indicated in last year's statement of intent.

## NET PROFIT 2001 – 2012



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# PROSPECTIVE FINANCIAL INFORMATION

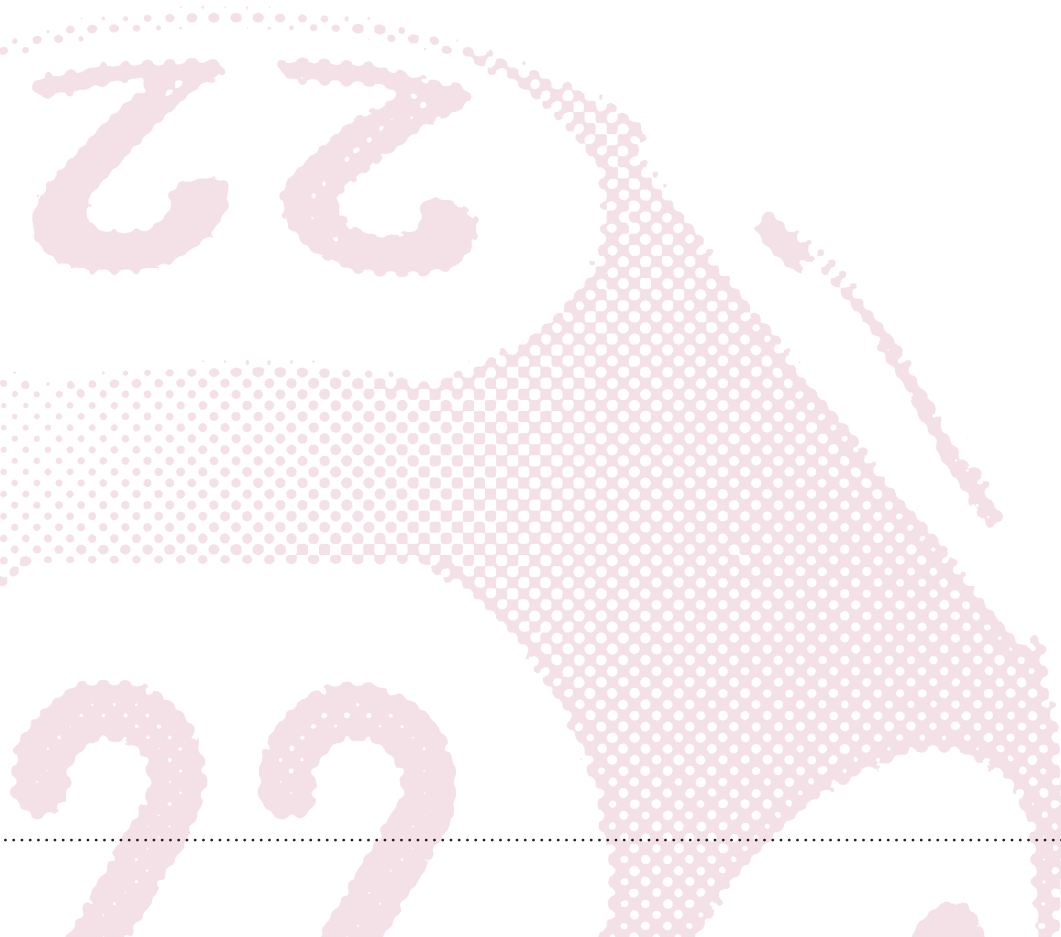
The prospective financial statements reflect NZ Lotteries' budget for the year ending 30 June 2010, and the forecast results and financial position for the year ending 30 June 2009. They have been prepared in accordance pursuant to section 142 (1) (a) of the Crown Entities Act 2004.

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 2009. 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 2009, incorporate the actual financial results for the nine months to 31 March 2009.

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 2010

	2010 Budget \$'000	2009 Projection \$'000	2008 Actual \$'000
Revenues (Note 3)	738,611	779,408	749,955
Cost of sales (Note 4)	529,784	556,635	536,775
<b>Gross profit</b>	<b>208,827</b>	<b>222,773</b>	<b>213,180</b>
<b>EXPENSES</b>			
Promotion and retail support	24,425	28,415	27,781
Property, plant and equipment depreciation	6,865	5,982	5,781
Computer software amortisation	1,220	965	903
Gaming system	6,545	6,183	5,000
Employee benefits	9,936	9,895	9,212
Other	7,336	6,680	7,682
<b>Total expenses</b>	<b>56,327</b>	<b>58,120</b>	<b>56,359</b>
<b>Profit</b>	<b>152,500</b>	<b>164,653</b>	<b>156,821</b>
Distribution to the New Zealand Lottery Grants Board	152,500	164,653	156,821
<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 2010

	2010 Budget \$'000	2009 Projection \$'000	2008 Actual \$'000
Profit after distribution to the New Zealand Lottery Grants Board	-	-	-
Total recognised revenues and expenses for the year	-	-	-
<b>Equity at beginning of the year</b>	<b>41,713</b>	<b>41,713</b>	<b>41,713</b>
Net profit for the period as above	-	-	-
<b>EQUITY AT THE END OF THE YEAR</b>	<b>41,713</b>	<b>41,713</b>	<b>41,713</b>

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

## PROSPECTIVE BALANCE SHEET

### AS AT 30 JUNE 2010

	2010 Budget \$'000	2009 Projection \$'000	2008 Actual \$'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	84,279	96,271	90,663
Debtors and other receivables	6,525	6,560	6,664
Prepayments	3,265	3,690	3,561
Inventories	2,700	2,275	2,735
<b>Total current assets</b>	<b>96,769</b>	<b>108,796</b>	<b>103,623</b>
<b>Non-current assets</b>			
Property, plant and equipment	25,778	29,621	34,168
Computer software	3,603	3,216	3,380
<b>Total non-current assets</b>	<b>29,381</b>	<b>32,837</b>	<b>37,548</b>
<b>TOTAL ASSETS</b>	<b>126,150</b>	<b>141,633</b>	<b>141,171</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Creditors and other payables	63,160	72,536	70,345
Annuity prize liabilities	1,000	1,150	1,225
Employee entitlements	500	475	604
<b>Total current liabilities</b>	<b>64,660</b>	<b>74,161</b>	<b>72,174</b>
<b>Long term liabilities</b>			
Annuity prize liabilities	4,000	4,500	4,576
Employee entitlements	30	30	50
<b>Total long term liabilities</b>	<b>4,030</b>	<b>4,530</b>	<b>4,626</b>
<b>Prize reserve account</b>	<b>15,747</b>	<b>21,229</b>	<b>22,658</b>
<b>Total liabilities</b>	<b>84,437</b>	<b>99,920</b>	<b>99,458</b>
<b>Equity</b>	<b>41,713</b>	<b>41,713</b>	<b>41,713</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>126,150</b>	<b>141,633</b>	<b>141,171</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 2010

	2010 Budget \$'000	2009 Projection \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Ticket sales	731,587	771,375
Net GST received	220	180
Other receipts	5,446	6,215
Prize payments	(428,617)	(453,065)
Lottery duty	(43,824)	(45,726)
Retailers' commission	(52,977)	(55,541)
Employee costs	(10,311)	(10,377)
Other payments	(44,784)	(47,099)
Net cash inflow from operating activities	156,740	165,962
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Sale of property, plant and equipment	75	71
Interest received	1,785	6,192
Purchase of property, plant and equipment	(3,107)	(2,686)
Purchase of computer software	(1,607)	(837)
Net cash inflow from investing activities	(2,854)	2,740
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Discharge of annuity prize liabilities	(1,225)	(1,275)
Payments to the New Zealand Lottery Grants Board	(164,653)	(161,819)
Net cash outflow from financing activities	(165,878)	(163,094)
Net increase in cash balances	(11,992)	5,608
Opening cash and cash equivalents balance	96,271	90,663
<b>CLOSING CASH AND CASH EQUIVALENTS BALANCE</b>	<b>84,279</b>	<b>96,271</b>

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

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# NOTES TO THE FORECAST FINANCIAL STATEMENTS

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## 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 2008.

### 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.

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## **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	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	
- structure	50 years
- services	15 years
- fit out	10 years

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

### Provisions

Provisions are recorded at the best estimate of the expenditure required to settle the obligation. Provisions to be settled beyond twelve months are recorded at their present value.

### Revenue and expense recognition

Revenues and corresponding direct expenses for Lotto (including Lotto Strike and Powerball), Keno 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 0.20 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 2008/2009 and for 2009/2010 are as follows:

- There will be no major outages affecting our lottery systems.
- There will be no changes in GST, lottery duty or the problem gambling levy. Taxation will continue to be levied on NZ Lotteries on the same basis as at April 2009.
- Total retail sales in New Zealand as measured by Statistics New Zealand's Retail Trade Survey will fall slightly during 2009/2010.
- There will be no statistically abnormal series of jackpot runs for Powerball or Big Wednesday.
- There will be no major global lotteries initiative over the internet during 2009/2010.

## 3. REVENUES

	2010 Budget \$'000	2009 Projection \$'000	2008 Actual \$'000
Sales including GST	770,000	810,000	777,960
GST	38,015	39,377	37,680
Sales excluding GST	731,985	770,623	740,280
Other revenue	6,626	8,785	9,675
<b>TOTAL REVENUES</b>	<b>738,611</b>	<b>779,408</b>	<b>749,955</b>

## 4. COST OF SALES

	2010 Budget \$'000	2009 Projection \$'000	2008 Actual \$'000
Lottery duty	42,350	44,550	42,788
Problem gambling levy	684	692	680
Retailers' and interactive commission	53,031	55,604	54,412
Prizes paid and payable	399,163	421,137	405,208
Prize reserve account	28,705	28,936	26,789
Ticket costs	5,426	4,906	5,251
Cost of goods sold to retailers	425	810	1,647
<b>TOTAL COST OF SALES</b>	<b>529,784</b>	<b>556,635</b>	<b>536,775</b>

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# DIRECTORY

## AUCKLAND OFFICE

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Auckland

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Facsimile 09-366 1605

## WELLINGTON OFFICE

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Wellington

Telephone 04-802 7000  
Facsimile 04-385 2787

## CHRISTCHURCH OFFICE

66-68 Mandeville Street  
PO Box 8609  
Riccarton  
Christchurch

## BOARD MEMBERS:

Judy Kirk, **Chair**

Laura Humphreys, **Deputy Chair**

Chris Curley

John Wright

## SENIOR MANAGEMENT:

Todd McLeay, **Chief Executive**  
Auckland

Warren Salisbury, **Deputy Chief Executive and Chief Financial Officer**  
Wellington

Karen Jones, **Head of Communications and Government Relations**  
Wellington

Evan Lawrey, **General Manager Interactive**  
Auckland

Chris Lyman, **General Manager Retail Sales**  
Auckland

Andrew McLeish, **Acting Head of Marketing**  
Auckland

Richard Tims, **Chief Technology Officer**  
Auckland

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