



Statement of Intent

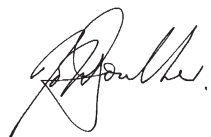
for the financial years ending 30 June 2007–30 June 2009

Table of Contents

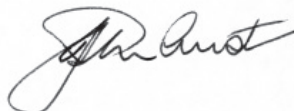
Introduction	2
Operating Environment	4
Strategies	8
Corporate Responsibility and Social Accountability	9
Performance Targets for 2006/2007 to 2008/2009	10
International Benchmarking	11
Previous Year's Performance	12
Financial Targets for the 2006/2007 Financial Year	14
Statement of Forecast Service Performance for the Year Ending 30 June 2007	16
Prospective Financial Information	17
Regulatory, Organisational & Financial Framework	22
Directory	24

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 2007, 2008 and 2009. 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.



John Goulter DCNZM, JP
Presiding Member



Paddy Austin
Deputy Presiding Member

1 June 2006

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Introduction

Our Purpose

To provide safe gaming 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 we endeavour to minimise the incidence of any problem gambling and under-age gambling associated with our products. We will achieve this by creating winning outcomes for all our stakeholders – our customers, our shareholder the government, our retail network and other business partners, and our staff.

Our Role

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 110 staff based in Auckland, Wellington and, in the case of retail sales, in each region. We have a retail network of more than 840 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 the 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.

NZ Lotteries statutory functions under the Gambling Act include maximising profits. However, this is subject to ensuring that the risks of problem gambling and under-age gambling associated with our products are minimised.

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.

Public Perceptions of NZ Lotteries

NZ Lotteries has a well established history and presence in New Zealand society.

We are New Zealand's only gaming provider with a pure community-benefit funding model. This model means that we are perceived differently from other gaming providers. After almost nineteen years of operation the public see NZ Lotteries as having an established history and presence in New Zealand society.

We are seen to be a source of large-scale community funding and our games are regarded as “fun” or a harmless flutter rather than gambling. As an organisation we are subject to stringent government reporting and monitoring requirements.

Supporting the Community

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

Since its creation, NZ Lotteries has contributed more than \$2 billion to the Lottery Grants Board. About 20% of NZ Lotteries sales go directly to the community – see Figure 1.



* Based on forecast results for the year ended 30 June 2006

We are a major supplier of funding for Sport & Recreation New Zealand, Creative New Zealand and the New Zealand Film Commission. The activities of New Zealand's artists, film-makers and high-achieving sports-people provide inspiration for us all. They act as a major catalyst in creating a positive sense of identity for New Zealand and New Zealanders.

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

Allocations by the Lottery Grants Board 2006–2007

Total available for allocation 2006–2007: \$124,328,032

Allocated to: \$

TOTAL LOTTERY DISTRIBUTION COMMITTEES 62,677,032

Regional Community Committees

Northland	1,254,882
Auckland	6,095,377
Waikato	2,301,989
Bay of Plenty/Gisborne	2,063,577
Hawke's Bay	1,151,701
Taranaki	751,770
Manawatu/Whanganui	1,347,642
Wellington/Wairarapa	1,960,076
West Coast/Nelson–Marlborough	1,247,233
Canterbury/Kaikoura	2,312,680
Otago/Southland	1,594,404

22,081,332

National Community Committee/Subcommittees

National Community Committee	11,880,000
Individuals with Disabilities	3,901,700
Pacific Provider Development Fund	350,000

16,131,700

TOTAL Community Committees 38,213,032

Specialist Distribution Committees

Environment and Heritage	8,083,900
Health Research	2,816,000
Marae Heritage and Facilities	6,084,100
Minister's Discretionary Fund	165,000
Outdoor Safety	7,315,000

TOTAL Specialist Distribution Committees 24,464,000

TOTAL STATUTORY BODIES 61,651,000

Creative NZ	21,310,000
Sport & Recreation NZ	30,890,000
NZ Film Commission	8,801,000
NZ Film Archive (via NZ Film Commission)	650,000

TOTAL ALLOCATION 2006–2007 124,328,032

Operating Environment

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.

We take this responsibility very seriously. NZ Lotteries and its retail network conduct all aspects of lottery business in a professional and responsible manner. All efforts are made to provide a safe, friendly and responsible play environment that adheres to legislative and regulatory requirements.

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.

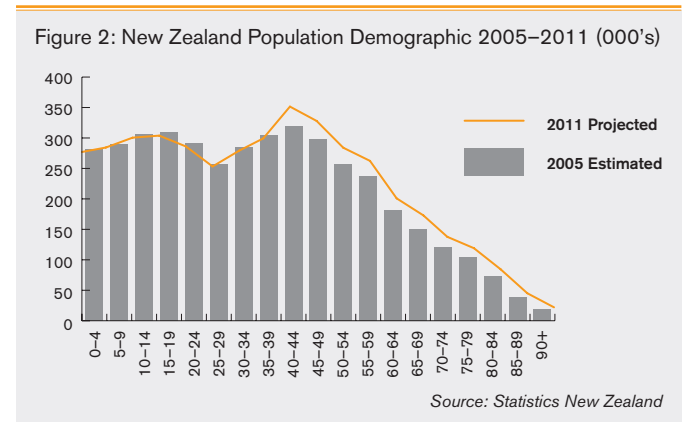
NZ Lotteries estimates that about two million adults, approximately 75% of New Zealand's adult population, play our games each year. Provisional problem gambling figures for the 2005 year show that at most 27, or 1.6%, of the 1,881 gamblers who received face-to-face counselling for the first time cited our products as their primary mode of gambling. This is slightly higher than in 2004 when 0.6%, or 13, of the 2,236 gamblers who presented for face-to-face counselling for the first time, cited our products as their primary mode of gambling.¹

While lotteries rarely cause problem gambling, 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 on game changes and new games. It will participate in problem gambling conferences and research programmes and be a member of the Ministry of Health and Department of Internal Affairs' joint Expert Advisory Group as it develops, and starts to implement, its integrated problem gambling strategy.

Population and Lifestyles

NZ Lotteries operates only within New Zealand, a market that has a relatively slow growing and ageing population – see *Figure 2*. The resident population of New Zealand was estimated at 4.13 million at 31 March 2006 and population growth was estimated to be 40,900, or 1.0%, during the year to 31 March 2006. Natural increase contributed 31,200 to population growth and net migration contributed 9,700 during the same period. Half of New Zealand's population was over 35 years of age at 31 March 2006 and about one in eight were aged 65 years and over.²



The ethnic diversity of New Zealand's population has changed significantly since the beginning of Lotto in 1987. Population growth is now focused on Auckland which has much greater ethnic diversity than other cities. Only 65% of Auckland's current population was born in New Zealand compared with a national average of 81%.³

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

¹ Interim 2005 primary mode data for Problem Gambling Intervention Services in New Zealand.

² Department of Statistics, National Population Estimates, March 2006 quarter.

³ Statistics New Zealand 2001 New Zealand Census of Population & Dwellings.

New Zealand Gaming Industry – Regulatory Environment

NZ Lotteries operates in a complex regulatory environment involving strict legislative boundaries, complex stakeholder relationships and a high level of scrutiny. Changing existing games, or introducing new ones, requires long lead times.

On the other hand, this environment means we are able to offer stakeholders transparency and total integrity in terms of processes and communication with the community.

The Gambling Act 2003

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

The Act introduced strong harm prevention and minimisation measures and allocated responsibility for funding and implementing 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.

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

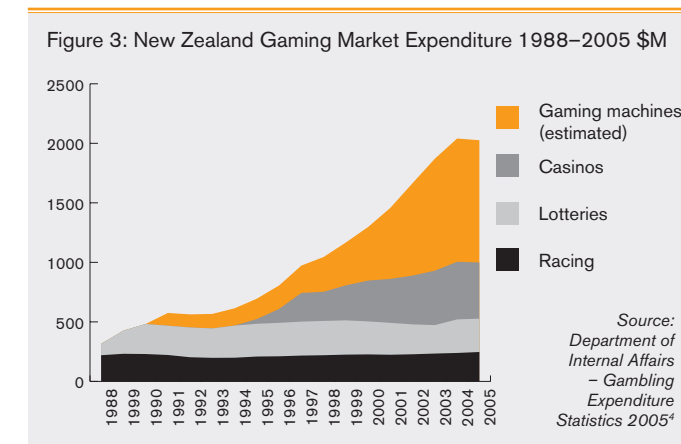
The New Zealand Racing Board and racing clubs are permitted to operate gaming machines in TABs and racing clubs and the TAB can sell its products online.

For NZ Lotteries, the Act raised the minimum age restriction on our Instant Kiwi product to 18 years, effective 1 July 2004, and incorporated harm minimisation requirements into our statutory functions. The statutory responsibilities placed with the Ministry of Health under the Act require NZ Lotteries to consult with it on harm minimisation issues, particularly when changing existing games and developing new games.

The Act allows NZ Lotteries to offer remote interactive gaming products in accordance with guidelines which will be developed and agreed to with the Department of Internal Affairs and the Ministry of Health.

Competition

Since Lotto was launched 19 years ago, the gaming 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 gaming market progressively declined as new entrants grew rapidly. – see *Figure 3*.



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

In 2005, expenditure in the New Zealand gaming market fell for the first time since 1992 with a drop of \$12 million (0.6%) in overall expenditure. Expenditure on NZ Lotteries products stayed at 14% of total gaming expenditure during the same period. Gaming machines outside casinos account for more than half the total gaming expenditure in New Zealand.

⁴ Gambling statistics derived from the Department of Internal Affairs website 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.

Direct competitors

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

TAB

- Offers racing and sports betting, retail and web channels and gaming machines. From 1 August 2006, the racing industry will enjoy a considerably more favourable tax regime with a reduction in totalisator duty from 20% to 4% of gambling profits.

Non-casino gaming machines

- As at 31 March 2006, the Department of Internal Affairs estimated that there were 21,026 gaming machines in pubs and clubs with 513 societies operating them from 1,721 venues. This amounts to approximately one machine for every 142 New Zealanders aged 18 or over. Regulators attribute the 0.6% drop in gambling expenditure between 2004/2005 to the Gambling Act's regulatory regime, and the Smoke-free Environments Amendment Act 2003, reducing the spend on gaming machines.
- Prior to the passing of the Gambling Act 2003, the trend had been for a rapid increase in the number of gaming machines. The Act capped the number of gaming machines to nine at any venue licensed since October 2001. Since then there has been a consequential decline in the number of machines each quarter.
- Jackpot devices linking gaming machines within one outlet have been operating for several years. Loyalty programmes for gaming machines in pubs and clubs are prohibited.
- From 1 April 2005 operators of gaming machines in pubs and clubs have been required to provide customers with information on problem gambling.
- From 1 October 2005 operators have been restricted from using jackpot advertising and jackpot branding.

Casinos

- The Gambling Act now prohibits any further casino licences from being granted.
- In 2005, player expenditure in casinos was nearly 70% higher than that spent on NZ Lotteries products with casino expenditure increasing by 15% in the past three years.
- From 1 April 2005 operators of gaming machines at casino venues have been required to provide customers with information on problem gambling.

- From 1 October 2005 operators at these venues have been restricted from using jackpot advertising and jackpot branding.

Interactive gaming

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

- This market is driven by brand, as opposed to regulation, and the traditional country/market barriers are blurring.

International lottery blocs

- Lottery operators from different states or countries form 'blocs' so that they are able to offer their customers the same game. The larger customer base they are able to draw on means that they can offer very large jackpot prizes at long odds. Lottery blocs already exist in the United States and Australia and there are lottery alliances involving Asian countries, the United Kingdom, France, Spain and other European countries. These games can be played on-line in New Zealand today, but advertising them is unlawful.

Indirect competition

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

Pay television

- Sky and TelstraClear have more than 640,000 subscribers paying an average of just over \$60 a month for their services.

Home entertainment

- Videos and DVDs are very common, offering choice and ease of use at an increasingly low cost.
- Sky introduced a TiVo-style digital video recorder (DVR) device in late 2005. Based on international experience this is expected to further fragment consumers' media consumption.

Mobile phones

- There are more than 3.8 million mobile users in New Zealand representing 92% of the population.⁵
- Users are being offered high-speed data and content delivery, mobile commerce is emerging and there are interactive competitions which can reach a broad player base.

The Internet

- More than 80% of New Zealanders now have access to the internet and it is growing in importance as a communications vehicle.⁶

⁵ Vodafone NZ estimate as per their website April 2006.

⁶ Nielsen/NetRatings Market Intelligence April 2005.

- Computers and high-speed internet access are becoming cheaper, interactive content is becoming mainstream, and e-mail is a popular communication and marketing tool. Broadband participation grew from 6.9% in June 2005 to 8.1% in December 2005.⁷

Other leisure and entertainment

- Consumers have an ever increasing array of options upon which to spend their discretionary dollars ranging from music downloads, video and computer games, CDs and DVDs, movies, magazines, travel and snack foods.
- Restaurants, cafes and bars are multiplying and diversifying, offering something for everyone's taste and wallet

Technology Trends

By mid-year we will have implemented our new gaming system, lottery terminals, management information system, corporate system and IP Wide Area Network. Our staff and retail network will benefit from these improved systems. Our traditional retailers and the players they serve will continue to be the dominant lottery sales channel for the foreseeable future. Our main priority, therefore, is to continue our efforts to maximise sales of our existing products through our retail network.

This new IT infrastructure provides us with the core functionality to introduce an online channel. The Gambling Act allows NZ Lotteries to offer interactive products in accordance with guidelines that will be developed and agreed with government regulators. As the number of people who shop over the internet increases, we believe it is essential that we respond to this change in consumer preference by also offering our products in this way.

Economic Environment

The following is a summary of a report provided by Infometrics in April 2006 for the purpose of assisting NZ Lotteries in its planning for the three years ending 30 June 2009.

New Zealand's economic growth has slowed from 4.3% to 1.9% pa over the past year. Growth has been weak because a large proportion of the lift in domestic spending has been satisfied by imports, rather than domestic production. In addition, the combination of rising domestic costs (labour, fuel, interest rates) and a rising exchange rate has squeezed profit margins, especially for the export sector.

⁷ OECD ranking on broadband penetration.

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

- Gross domestic product (GDP) growth is expected to remain below 2.5% pa until the second half of 2007. However, it is likely that the economy is currently passing through the trough of the current cycle (in the December 2005 and March 2006 quarters), and that output will start to improve going forward.
- The unemployment rate has held below 4% for the past year. Employment intentions have softened, and the unemployment rate is forecast to peak at 4.6% in mid-2007.
- Consumer confidence has been weak due to signs that the labour market may be softening slightly. That is undermining household spending and growth in retail sales could slip below GDP growth early in 2007 for the first time since 2001.
- Growth in aggregate real disposable income was estimated at 3.1% over the March 2006 year. Although income growth will not be as strong as it was between 2003 and 2005, large increases in social welfare spending (the Working for Families package) will help offset slower growth in entrepreneurial income and employment.
- Inflation remains above the top of the Reserve Bank's 1–3% pa target band. However, inflation is likely to slow over 2006/2007 due to softening domestic demand, which will make it more difficult for businesses to pass on cost increases. Inflation expectations have started to ease.
- The Reserve Bank's official cash rate (OCR) is currently 7.25%. Interest rate reductions are likely from late 2006 or early 2007 as inflation slows, domestic demand growth eases, and the housing market cools.
- The New Zealand dollar has fallen sharply since the start of 2006 due to New Zealand's large balance of payments deficit, slowing economic growth, and the shrinking gap between domestic and overseas interest rates. Further falls are likely, but not at the same rate as in recent months. The trade weighted index is expected to be around 60 in mid-2007 (currently 63).

Strategies

The following strategies will remain the guiding principles in 2006/2007 and beyond.

Products and Customers

Strategic objectives include:

- attracting more players by strengthening the appeal of our games using effective and appropriate marketing and promotional initiatives
- creating more opportunities for our customers to play and win taking into account the Gambling Act environment with its focus on harm minimisation.

Distribution

Strategic objectives include:

- providing a flexible, cost-effective retail model that meets the needs of a changing population
- moving to an environment in which customers may, if they wish, purchase our products electronically.

Technology

Strategic objectives include:

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

Organisational Identity

Strategic objectives include:

- continuing the successful implementation of the new organisational identity
- strengthening the public perception that all NZ Lotteries games offer the opportunity to win prizes, that the proceeds are used to enhance the New Zealand way of life and that our games are conducted with complete integrity.

Winning Team

Strategic objectives include:

- promoting teamwork and success
- enabling effective delivery of products and support mechanisms
- encouraging effective capture of market innovations.

Operational Efficiency and Processes

Strategic objectives include:

- focusing on cost management to improve operational efficiency and drive down costs.

Connecting With Stakeholders

Strategic objectives include:

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

Corporate Responsibility and Social Accountability

Corporate Citizen and Integrity Performance Measures

NZ Lotteries strives to conduct all aspects of the 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.

During the period 1 July 2006 to 30 June 2007 NZ Lotteries plans to:

- conduct all draws on time for Lotto (including Lotto Powerball), Keno, Big Wednesday and any new draw games introduced during the year
- comply with all provisions of the Gambling, Fair Trading, Commerce, and Consumer Guarantees Acts
- ensure that all of our advertising complies with the standards set by the Advertising Standards Authority
- monitor Problem Gambling Counselling National Statistics with the aim of ensuring that less than 100 of the problem gamblers who seek counselling for the first time cite NZ Lotteries products as their primary mode of gambling.

Responsible Play

NZ Lotteries is committed to responsible play practices and has been operating lotteries responsibly and with integrity since 1987. We take our statutory responsibility under the Gambling Act 2003 to minimise problem gambling and under-age gambling very seriously. We're committed to operating according to our Responsible Play Code of Practice and to keeping our lottery games fun and entertaining.

Initiatives for the period 1 July 2006 to 30 June 2007 to ensure NZ Lotteries harm prevention and minimisation responsibilities under the Act are met include:

- the development of a responsible gaming framework to be applied to existing and new lottery products
- ongoing consultation with the Ministry of Health and the Department of Internal Affairs and problem gambling service providers on issues around preventing and minimising harm, particularly as this pertains to new games
- the introduction of an age restriction mark on the back of all Instant Kiwi tickets
- the continuation of a new harm minimisation framework used to review all Instant Kiwi tickets during the ticket design process

- attendance at a World Lottery Association seminar on responsible gaming
- a periodic review of our Code of Practice for Responsible Play and its companion brochure that are carried in all lottery outlets, on our website and 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, corporate collateral and at point of sale
- completion of the first phase of research on responsible gaming and the commencement of phase two research
- continued representation on the Ministry of Health and Department of Internal Affairs' joint Expert Advisory Group on problem gambling.

Managing NZ Lotteries Organisational Health & Capability

NZ Lotteries is committed to being a good employer, with all of our human resource policies designed to achieve this aim. To build a winning team NZ Lotteries must continue to 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.

Initiatives for the period 1 July 2006 to 30 June 2007 to ensure NZ Lotteries is meeting its obligations to manage organisational health and capability include:

- develop the capability required to enhance NZ Lotteries performance
- emphasise staff training and development
- complete a staff survey, benchmarking against previous years; assist with ongoing culture development and employer-of-choice objective
- review code of conduct and modify if required
- develop and implement a remuneration strategy that is fair and equitable
- identify high performers and implement a retention programme
- further implement our wellness policy
- develop and implement a succession planning strategy
- implement changes in business processes enabled by the new MIS system and mobile wireless technology.

Performance Targets for 2006/07 to 2008/09

Financial Performance Targets

	Actual 2004/2005	Estimate* 2005/2006	Budget 2006/2007	Projection 2007/2008	Projection 2008/2009
a) Total sales (\$m) (GST inclusive)	630.4	690.0	710.0	738.0	768.0
b) Net profit (\$m)	130.4	137.4	138.6	144.0	150.0
c) Paid to NZ Lottery Grants Board (\$m)	123.4	131.0	138.6	144.0	150.0

* The 2005/2006 estimate is based on 10 months' unaudited actual results and an estimate for May and June 2006.

Notes:

- All financial information is GST exclusive unless described otherwise.
- NZ Lotteries financial statements will be prepared under New Zealand Equivalents to International Accounting Standards (NZIFRS) with effect from the year ending 30 June 2008. The adoption of NZIFRS is not expected to have a material impact on the basis on which sales and net profit are measured.

Other targets

	Actual 2004/2005	Estimate* 2005/2006	Budget 2006/2007	Projection 2007/2008	Projection 2008/2009
a) Annual per capita sales (adults 18 and over)*	\$209	\$226	\$232	\$239	\$247
b) Share of retail spending**	1.6%	1.6%	1.5%	1.6%	1.5%

* GST-inclusive figures.

** NZ Lotteries uses retail sales (excluding automobiles and automobile products) as measured by the Department of Statistics in its retail trade survey. The most recent survey is for actual sales for the last four quarters to March 2006.

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

Capital expenditure

	Actual 2004/2005	Estimate 2005/2006	Budget 2006/2007	Projection 2007/2008	Projection 2008/2009
Capital expenditure (\$m)	8.7	32.0	6.5	5.0	5.0

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.

A comparison with Australian lotteries shows that their prize sizes, number of games offered, spend per capita and distribution footprint are all greater than our own. For example, in New Zealand we have an average of 2.0 lottery retailers per 10,000 people compared with 2.4 retailers per 10,000 people in Queensland and 3.5 retailers per 10,000 people in South Australia.⁸

Our revenues are improving but we have a long way to go before we reach Australian levels. In the year to 30 June 2005, spend per capita in all of the Australian state lotteries was substantially higher than ours, with the average spend across Australia being 45% higher than our own.⁹

In its April 2006 issue the *International Gaming and Wagering Bulletin* assesses all 41 US State lotteries on a series of effectiveness and efficiency measures. Instead of the usual per-capita comparisons *International Gaming and Wagering Bulletin* uses aggregated personal-income figures for each US State to calculate the percentage of personal income spent on lottery sales.

The *International Gaming and Wagering Bulletin's* 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 2004/2005 financial year:

- Effectiveness and market-penetration measure:

Fiscal 2004/2005 sales as a per cent of US State personal income.

NZ Lotteries comparative ranking is 11th at 0.61%. (9th in 2003/2004)

- Fiscal effectiveness measure:

Fiscal 2004/2005 government revenue as a per cent of US State personal income.

NZ Lotteries comparative ranking is 11th at 0.18%. (11th in 2003/2004)

- Efficiency measure:

Ranked by cents spent to generate one sales dollar in fiscal 2004/2005*.

NZ Lotteries comparative ranking is 24th at 15.0 cents. (22nd in 2003/2004)

* 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.

- Fiscal efficiency measure:

Fiscal 2004/2005 revenue generated for community and government as a per cent of gross revenue (sales minus prizes)*.

NZ Lotteries comparative ranking is 22nd at 67.6%. (24th in 2003/2004)

* 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 2005.
- US State lotteries revenue and expense results were predominantly for the year to 30 June 2005.
- 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 2005.
- NZ Lotteries revenue and expenses were for the year to 30 June 2005. 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.

⁸ Lotterywest, Australasian Lotteries Industry Report YTD March 2005; Queensland has a similar population to New Zealand.

⁹ Using the average exchange rate over the five year period to 30 April 2006 of \$1 + A\$0.884.

Previous Year's Performance

This section sets out NZ Lotteries success in achieving its key corporate objectives. Because of the legislative timing of the statement of intent, figures for 2005/2006 can only be estimates. Actual results, based on audited financial statements, will be shown in NZ Lotteries 2005/2006 annual report.

NZ Lotteries achieved its operational objectives and also projects to meet its financial objectives, except in relation to operating expenditure.

We expect that we will exceed our budgeted profit of \$123.1 million by \$14.3 million. Operating expenses are expected to meet budget. The total transfer to the Lottery Grants Board is projected to be \$131.0 million, \$17 million above budget.

Success in Meeting Key Strategic Objectives for 2005–2006

Objectives	Assessment
Simpler games, more games, more often	Big Wednesday was successfully launched in October 2005 and has been well received by the public, trading well above budget. The scoping of potential interactive and rapid game products continued, although it will not be possible to offer these products until the new gaming system is in place.
Distribution "anywhere, any time"	The retail network increased from 775 to 840 outlets. We opened 125 new retail outlets and refurbished 195 existing outlets. We trained 2,500 retailers for Big Wednesday and 9,000 through other training programmes.
Technology "any where, any time"	By July 2006 we will have implemented the new gaming system, terminals, management information system, corporate systems and IP Wide Area Network. Our information technology function, along with our marketing and sales teams, will be based in our new headquarters in Khyber Pass Road, Auckland.
A brand that is all about winning and the community	The new corporate identity continued to be integrated into retail design and corporate documentation. Significant media coverage of winners continued to be generated, and issues were managed effectively.
A winning team	Performance management agreements are in place and operational. The wellness programme, implemented last year, has received good support with 50% of staff using the scheme.
Operational efficiency	Expenditure, excluding a write-down in property validation, as a proportion of sales for 2005/2006 was projected to be 7.3% compared to 7.4% in 2004/2005.
Communications that win the hearts and minds of our stakeholders	Good relationships were maintained with all key stakeholders. A joint branding strategy and Memorandum of Understanding (MOU) for brand alignment was agreed with the NZ Lottery Grants Board. An updated Responsible Play Code of Practice and Responsible Play brochure were completed. A new advertising campaign has researched positively with customers.

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

The performance measures for the 2005/2006 year were:

- to conduct all draws on time for Lotto (including Lotto Powerball), Daily Keno, Big Wednesday and any new draw games introduced by NZ Lotteries during the year.

Achieved: All Lotto (including Lotto Powerball), Daily Keno and Big Wednesday draws were conducted on time

Big Wednesday draw 7 was successfully completed in accordance with the draw procedures and signed off by Audit New Zealand. However, the presenter twice misread ball number six by announcing it as number nine at which point the live television broadcast of the draw was aborted. The stage set-up was subsequently modified to ensure this mistake does not recur.

- to comply with the provisions of the Gambling, Fair Trading, Commerce, and Consumer Guarantees Acts.

Achieved: During the 2005/2006 year, the Commission did not breach the Gambling, Fair Trading, Commerce, and Consumer Guarantees Acts.

- ensure that all of our advertising complies with the standards set by the Advertising Standards Authority.

Achieved: No complaints in respect of NZ Lotteries advertising were upheld by the Advertising Standards Complaints Board during 2005/2006.

- to monitor Problem Gambling Counselling National Statistics with the aim of ensuring that less than 100 problem gamblers who seek counselling for the first time cite NZ Lotteries products as their primary mode of gambling.

Achieved: Provisional problem gambling figures for the 2005 year show that at most 27 (or 1.6%) of the 1,881 gamblers who received face-to-face counselling for the first time cited our products as their primary mode of gambling.¹⁰

Responsible Gaming

Initiatives in response to NZ Lotteries responsibility under the Gambling Act 2003 to ensure that the risks of problem gambling and under-age gambling are minimised included ongoing consultation with the Ministry of Health and the Department of Internal Affairs and other stakeholders on issues around preventing and minimising harm.

It was agreed an age restriction mark would be placed on to the back of all Instant Kiwi tickets and a new harm minimisation framework was developed and introduced to review all Instant Kiwi tickets during the ticket design process. There has been continued vigilance to ensure compliance with the age restriction for playing Instant Kiwi, supported by in-store communications and training.

NZ Lotteries continued to monitor, and adopt where applicable, responsible gaming initiatives developed by the World Lottery Association.

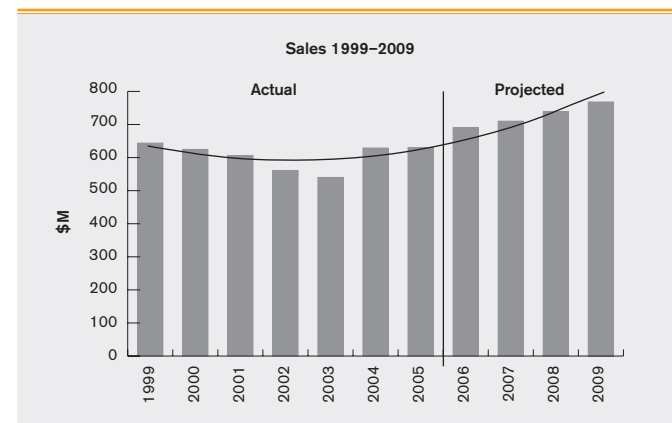
The first phase of a research project we have commissioned on lotteries and responsible gaming is due for completion by July 2006 and phase two of the research will commence in the second half of 2006.

NZ Lotteries continues to be represented on the Ministry of Health and Department of Internal Affairs' joint Expert Advisory Group on problem gambling.

¹⁰ Interim 2005 primary mode data for Problem Gambling Intervention Services in New Zealand.

Financial Targets for the 2006/2007 Financial Year

Sales



From 1999 to 2003, sales decreased for four years in succession. A marked turnaround was achieved in 2003/2004. This result was achieved by realising the potential of three very large Powerball jackpots and implementing other sales, marketing and public relations initiatives.

The 2004/2005 results were very similar to those for 2003/2004, reflecting the revenue volatility caused by Powerball, although this was countered by successful sales promotions, increased Instant Kiwi ticket streams and product advertising, and a lift in average weekly sales for Lotto after the significant changes made to that game in August 2004.

With the successful launch of a new mid-week lottery game, Big Wednesday, in October 2005, along with a very strong sales performance from our revitalised Lotto family, we expect sales for 2005/2006 to be in the vicinity of \$690 million, up 9.5% on 2004/2005.

These efforts were supported by:

- an increase in the number of retail outlets from 775 to 840
- improved advertising and in-store promotion
- the continuation of a national retail network refurbishment programme aimed at refreshing our retail presence. At 30 April 2006 we had refurbished 300 existing outlets and opened 200 new outlets using the new format.

We are budgeting on a modest increase in sales to \$710 million for 2006/2007. The actual outcome could be very much better, but much will depend on the state of the domestic economy and Powerball and Big Wednesday's jackpotting behaviour.

Growth in 2005/2006 and beyond will come from strengthening and expanding our game portfolio, controlled expansion of our retail network to offer customers greater accessibility and convenience, and utilising the functionality offered by our new IT infrastructure to offer an online channel.

We will continue with a controlled expansion of the retail network to offer our customers throughout New Zealand better accessibility and convenience when buying our products, regardless of where they live. There will be an increased focus on providing quality support to existing retailers as we continue with network revitalisation.

Much opportunity still exists to increase play frequency and attract new players. This has been illustrated by the successful introduction of Big Wednesday which has been very well received by players and retailers.

Importantly, sales of the mainstays of our existing portfolio of games – the Lotto family and our Instant Kiwi games – have not been significantly affected by Big Wednesday's introduction, and retailers have benefited from the extra sales, and the additional foot traffic, generated by mid-week purchasing. Having more outlets has helped too, making it easier for customers to purchase during the week.

We are committed to building on the successful launch of Big Wednesday, with our aim being to continue to strengthen the already loyal player base we have established for this game.

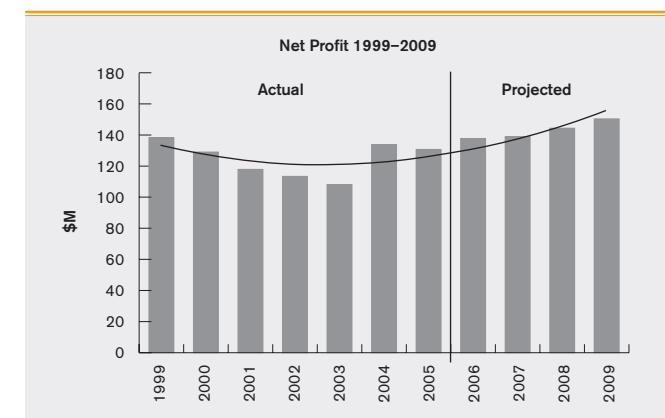
We are hoping to introduce a further game played on a weekly basis in 2006/2007. However, plans for this are only at a very preliminary stage. The introduction of a further mid-week game would add to our existing revenue base, but we do not expect that its sales would be on the same scale as Big Wednesday.

Strengthening our game portfolio will allow us to spread our revenue risk across the week and address the difference in product spread between us and the other Australasian lotteries.

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. A new age restriction mark is being introduced on the back of Instant Kiwi tickets in 2006. We are also developing a responsible gaming framework which will be used with both existing and new games.

Earnings



Decreasing sales over several years led to an associated fall in profitability. However, in 2003/2004 buoyant sales, assisted by the three big Powerball jackpots, gave a large boost to profits. Earnings in the 2004/2005 year, which received much less help from Powerball jackpots, were of a similar level.

Earnings in 2005/2006 are projected to be up by about \$7 million (5.3%) on the previous year.

Consistent with the relatively small increase that we are budgeting for in sales, we expect a modest growth in earnings in 2006/2007.

Products

Launched in October 2005, Big Wednesday has performed well above expectations, quickly establishing a strong position in the market. A high level of initial interest by players through the first jackpot cycle created a player base that has subsequently remained loyal through later cycles. Customer and retailer reaction to the game has been uniformly positive.

Lotto family sales have not been significantly affected by the launch of Big Wednesday. There is, however, a need to refocus the very popular Triple Dip promotions to distinguish them from the Big Wednesday offering, and to continue to develop, and refresh, communications support for the Lotto family of products.

Keno sales increased when the game went from one draw to two draws a day in May 2004. The small, but loyal, Keno player base has continued to play at similar levels over the past year. We are planning to review Keno's game structure and to look at different ways of offering this game to customers.

The good growth achieved by Instant Kiwi in recent years has slowed and a review of the category is underway. Continued growth will come from new designs and game structures for key Instant Kiwi streams, better stock management, and increased distribution and communications that highlight the 'Instant Kiwi attitude' that underpins this brand.

As noted earlier under "Technology Trends", from mid-year the new gaming system will provide us with the core functionality to make our products available through new electronic channels.

Lotteries in many parts of the world, including Australia, Canada, the United Kingdom and Scandinavia, make their products available for purchase over the internet. Rigorously regulated, and generally government owned, lottery companies are seen as being able to offer interactive products reliably and safely compared with unregulated competitors.

As a first step we will be aiming to offer Lotto, Big Wednesday and Keno. An important part of this work will be to focus on the harm prevention and minimisation measures that will need to be introduced in conjunction with any interactive products.

We expect to begin discussions shortly with officials from the Department of Internal Affairs and the Ministry of Health regarding the safeguards we will be putting in place against under-age and problem gambling.

The internet is becoming ever more popular for on-line retailing and entertainment and we see some existing, and some new, customers being interested in purchasing through this channel.

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

Key Financial Objectives

Our budget for 2006/2007 is based on realistic objectives given the unpredictability of Powerball and Big Wednesday's jackpotting cycles. Large prize offers create sizeable increases in sales and earnings.

NZ Lotteries key financial objectives for the 2006/2007 financial year are:

- to achieve gross sales of \$710 million
- to achieve a net surplus of \$138.6 million
- to transfer \$138.6 million to the NZ Lottery Grants Board.

Statement of Forecast Service Performance for the Year Ending 30 June 2007

		2006/07 Forecast	2005/06 Forecast	2004/05 Actual
The functions of NZ Lotteries under the Gambling Act 2003 are as follows:	Lotto, Strike and Powerball			
1. 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;	Number of entries (million)	778.0	795.3	842.8
	Number of tickets (million)	64.6	66.0	71.7
	Sales (\$ million)	468.0	478.4	501.9
	Prizes (\$ million)	275.1	278.0	290.7
2. to maximise profits so generated, subject to ensuring that the risks of problem gambling and underage gambling are minimised;	Big Wednesday			
	Number of entries (million)	114.4	86.0	–
	Number of tickets (million)	19.8	14.9	–
	Sales (\$ million)	114.4	86.0	–
	Prizes (\$ million)	62.9	43.6	–
3. to make rules regulating the conduct and operation of New Zealand lotteries in accordance with section 243 of the Act;	Instant Kiwi			
	Number of tickets (million)	48.1	47.2	46.6
	Sales (\$ million)	105.3	103.3	105.3
	Prizes (\$ million)	61.6	58.8	59.7
4. to advise the Minister of Internal Affairs on matters relating to New Zealand lotteries.	Keno			
	Number of tickets (million)	8.3	8.3	8.3
	Sales (\$ million)	22.3	22.3	23.2
	Prizes (\$ million)	13.4	13.3	14.2
The primary measures by which the performance of the first two statutory functions may be assessed are set out in the statement on this page.	Total			
	Number of tickets (million)	140.8	136.4	126.6
	Sales (\$ million)	710.0	690.0	630.4
	Prizes (\$ million)	413.0	393.7	364.6
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.	Net surplus (\$ million)	138.6	137.4	130.4
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.	Distribution to the NZ Lottery Grants Board (\$ million)	138.6	131.0	123.4
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.	Problem gamblers seeking counselling for the first time citing NZ Lotteries products as their primary gambling mode:			
	Percentage	2.0%	1.6%	0.6%
	Number	<100	27	13
	Convictions for the sale of Instant Kiwi games to persons under 18 years	Nil	Nil	Nil

Prospective Financial Information

The prospective financial statements reflect the Commission's budget for the year ending 30 June 2007 and the forecast results and financial position for the year ending 30 June 2006. They have been prepared in accordance with the requirement under 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 the Commission's board reasonably expects to occur associated with the actions the board reasonably expects to take as at 1 June 2006. 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 2006 incorporate the actual financial results for the ten months to 30 April 2006.

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.

Statement of prospective financial performance

For the year ending 30 June 2007	2007 Budget (\$000)	% of sales	2006 Projection (\$000)	% of sales	2005 Actual (\$000)	% of sales
Sales (including gst)	710,000	100.0%	690,000	100.0%	630,374	100.0%
Cost of sales (note 4)	525,577	74.0%	508,453	73.7%	465,204	73.8%
	184,423	–	181,547	–	165,170	–
Other revenue	6,638	0.9%	9,000	1.3%	10,779	1.7%
	191,061	–	190,547	–	175,949	–
Operating expenses (note 5)	52,454	7.4%	53,185	7.7%	45,552	7.2%
Net surplus	138,607	19.5%	137,362	19.9%	130,397	20.7%
Distribution to the New Zealand Lottery Grants Board	138,607	19.5%	130,996	19.0%	123,397	19.6%
Net surplus after distribution to the New Zealand Lottery Grants Board	–	–	6,366	0.9%	7,000	1.1%

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 2007	2007 Budget (\$000)	2006 Projection (\$000)	2005 Actual (\$000)
Net surplus for the year after distribution to the New Zealand Lottery Grants Board	–	6,366	7,000
Total recognised revenues and expenses for the year	–	6,366	7,000
Movements in equity for the year	–	6,366	7,000
Equity at the beginning of the year	36,276	29,910	22,910
Equity at the end of the year	36,276	36,276	29,910

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

18

Statement of prospective financial position

As at 30 June 2007	2007 Budget (\$000)	2006 Projection (\$000)	2005 Actual (\$000)
ASSETS EMPLOYED			
Investments	52,069	62,909	71,686
Current assets	11,400	9,300	13,427
Fixed assets	35,623	35,327	10,392
Total assets employed	99,092	107,536	95,505
FUNDS EMPLOYED			
Current liabilities	41,600	49,596	52,568
Prize reserve account	13,716	15,664	10,968
Long term liabilities	7,500	6,000	2,059
Equity	36,276	36,276	29,910
Total funds employed	99,092	107,536	95,505

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 2007	2007 Budget (\$000)	2006 Projection (\$000)	2005 Actual (\$000)
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash provided from:			
Sale of game tickets	670,944	656,511	598,491
Interest received	4,338	5,966	5,089
Other receipts	5,500	6,204	7,335
Cash applied to:			
Prize payments	400,648	374,076	346,421
Lottery duty	39,050	37,950	33,785
Retailers' commission	49,700	48,300	44,079
Other payments	51,101	58,072	51,334
Net GST paid	–	–	(1,403)
Payments to the New Zealand Lottery Grants Board	144,603	134,397	129,450
Net cash inflow from operating activities	(4,320)	15,886	7,249
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash provided from:			
Sale of fixed assets	–	6,700	568
Cash applied to:			
Purchase of fixed assets	6,520	31,235	8,756
Net cash outflow from investing activities	(6,520)	(24,535)	(8,188)
Net decrease in cash held	(10,840)	(8,649)	(939)
Cash balance at the beginning of the year	62,959	71,608	72,547
Cash balance at the end of the year	52,119	62,959	71,608

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

19

Notes To The Prospective Financial Statements

1. Accounting Policies

Reporting basis

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

Accounting convention

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

Budget figures

The budget figures are those approved prior to the beginning of the financial year by the Board and subsequently confirmed by the Minister of Internal Affairs.

Employee entitlements

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

Financial instruments

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

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

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

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

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

From time to time, as appropriate, the Commission enters into forward foreign currency contracts for the purpose of hedging its exposure to expected future purchases in foreign currency of computer hardware and software.

Fixed Assets and Depreciation

All fixed assets are initially recorded at cost. The net current value of the land and building is assessed by an independent valuer every three years, and the book values adjusted accordingly. Depreciation of fixed assets, other than freehold land which is not depreciated, is calculated on a straight line basis so as to allocate the cost of the assets, or the revalued amount, over their estimated useful lives as follows:

Gaming computers and associated equipment	1–7 years
Other computer hardware and software	3 years
Leasehold improvements	2–5 years
Draw equipment	5 years
Furniture and fittings	10 years
Motor vehicles	4 years
Office equipment	5 years
Building: Structure	25 years
Services	15 years
Fit out	8 years

Goods and Services Tax (GST)

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

Leases

Operating leases

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

Prize reserve account

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

Revenue and expense recognition

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

Statement of cash flows

Cash means cash balances on hand, held in bank accounts, demand deposits, and other highly liquid investments in which the Commission invests as part of its day-to-day cash management.

Cash flows from operating activities include cash received from all income sources of the Commission, and cash payments made for the supply of goods and services and to the New Zealand Lottery Grants Board.

Investing activities are those activities relating to the acquisition and disposal of non-current assets.

Taxation

The Commission is exempt from income tax by virtue of Section 264 of the Gambling Act 2003.

The Commission pays the following taxes:

- lottery duty of 5.5 cents in the dollar on GST-inclusive sales
- problem gaming levy of 0.14 cents in the dollar on GST-inclusive sales less prizes payable
- goods and services tax charged on lottery sales less related prizes payable
- fringe benefit tax.

Changes in Accounting Policies

The accounting policies are consistent with those used in the annual financial statements for the year ended 30 June 2005.

2. Compliance with Financial Reporting Standard No. 42

These prospective financial statements comply with FRS42 (Prospective Financial Statements) which was approved in December 2005 by the Accounting Standards Review Board under the Financial Reporting Act 1993.

3. Principal assumptions

The principal assumptions made in arriving at the forecasts for the remainder of 2005/2006 and for 2006/2007 are as follows:

- Total retail sales in New Zealand as measured by Statistics New Zealand's Retail Trade Survey will increase by between 2% and 5% in actual terms in 2006/2007
- There will be no major outages affecting our lottery systems
- There will be no statistically abnormal series of jackpot runs for Powerball/Big Wednesday
- The number of lotteries outlets will have increased to 950 outlets by 30 June 2007
- There will be no major global lotteries initiative over the internet during 2006/2007
- Taxation will be levied on NZ Lotteries products on the same basis as in the past (that is, there will be no changes in GST, lottery duty or the problem gambling levy).

Regulatory, Organisational & Financial Framework

4. Cost of sales

	2007 Budget (\$000)	2006 Projected (\$000)	2005 Actual (\$000)
GST	33,000	32,803	31,264
Lottery duty	39,050	37,950	34,671
Problem gambling levy	416	413	305
Retailers' commission	49,700	48,300	44,117
Prizes paid and payable	375,421	363,114	336,938
Prize reserve fund	23,590	21,000	13,053
Ticket costs	4,400	4,873	4,856
Total	525,577	508,453	465,204

5. Operating expenses

	2007 Budget (\$000)	2006 Projected (\$000)	2005 Actual (\$000)
Advertising, draws, other promotion and retail support	25,762	26,270	25,092
Gaming system	3,905	4,623	2,927
Staff costs	10,293	10,801	8,658
Depreciation	5,330	2,180	1,813
Property revaluation deficit	–	2,750	–
Other	7,164	6,561	7,062
Total	52,454	53,185	45,552

6. Adoption of NZ IFRS

The Commission's financial statements will be prepared under New Zealand Equivalents to International Accounting Standards (NZ IFRS) with effect from the year ending 30 June 2008. The adoption of NZ IFRS is not expected to have a material impact on the Commission's reported results or financial position.

Legislative Authority

The activities of NZ Lotteries are specifically authorised and controlled through the Gambling Act 2003, the Public Finance Act 1989 and the Crown Entities Act 2004. (Most of the provisions of the Gambling Act 2003 came into effect 1 July 2004, superseding the Gaming and Lotteries Act 1977).

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 under-age gambling are minimised.
- to make rules regulating the conduct and operation of New Zealand lotteries under section 243 of the Gambling Act 2003.
- to advise the Minister of Internal Affairs on matters relating to New Zealand lotteries.

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.

Transfer of profits to the New Zealand Lottery Grants Board

All profits surplus to NZ Lotteries approved capital expenditure requirements are transferred to the NZ Lottery Grants Board for distribution. Payments to the NZ Lottery Grants Board are made quarterly.

The Organisation

Heading NZ Lotteries are five board members, all of whom 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 its senior management team.

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

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

NZ Lotteries undertook a staff survey in late 2005 which found that staff felt they worked for a successful organisation, had a clear vision, believed in what they were doing, felt they were treated with respect, and understood what was expected of them. This survey will continue to be undertaken on a regular basis.

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 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 of Internal Affairs 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 during the year, together with a copy of its audited accounts and the report of Audit New Zealand on those accounts.

This report is tabled in Parliament as required by schedule 4, section 24(3) of the Gambling Act 2003. After its annual report is published, 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 (including the responsible Minister) benefit from the provision of this information.

Corporate Governance: Within NZ Lotteries

The board meets at least monthly and additional meetings are held as required. The chief executive and chief financial officer attend all meetings.

Year-to-date financial information is provided for every 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 currently consists of four board members. It meets officials from Audit New Zealand, NZ Lotteries auditors. This committee, with the assistance of the executive, is responsible for matters of compliance. Final approval of NZ Lotteries accounts is confirmed by the Audit and Risk Committee prior to endorsement by the full board.

NZ Lotteries received an "excellent" rating from Audit New Zealand in its most recent audit in three of the five assessment categories – financial control systems, service performance information and information systems and service performance management. Financial management and financial management information systems, the other two categories, were both rated "good", the second highest rating.

The Remuneration Committee currently 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 \$250,000 from players with management's decisions subsequently endorsed by the board. Disputed claims for over this amount are dealt with directly by the board.

Directory

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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

93 Manchester Street
PO Box 27033
Shirley
Christchurch

Telephone 03–365 7365

Facsimile 03–365 7368

Board Members:

John Goulter DCNZM, JP

Presiding Member

Paddy Austin PhD

Deputy Presiding Member

Sally Jo Cunningham PhD (Computer Science)

Guy Herbert LLB (Hons) Dip TP

Kay McKelvie LLB, MBA

Senior Management:

Todd McLeay

Chief Executive

Auckland

Warren Salisbury

Deputy Chief Executive

Wellington

Quinton Hall

Chief Technology Officer

Auckland

Evan Lawrey

Head of Marketing

Auckland

Chris Lyman

General Manager Retail Sales

Auckland

Helen Morgan-Banda

Head of Communications and Government Relations

Wellington

Website: www.nzlotteries.co.nz



www.nzlotteries.co.nz