



2008

STATEMENT OF INTENT

for the financial years ending 30 June 2009 - 30 June 2011

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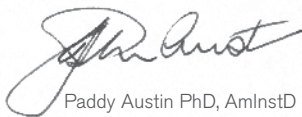
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This statement of intent for the New Zealand Lotteries Commission (NZ Lotteries) meets the requirements of section 139 of the Crown Entities Act 2004. It is for the financial years ending 30 June 2009, 2010 and 2011. The statement sets out the overall 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 PhD, AmlnstD
Deputy Presiding Member



TERM INFORMATION

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.

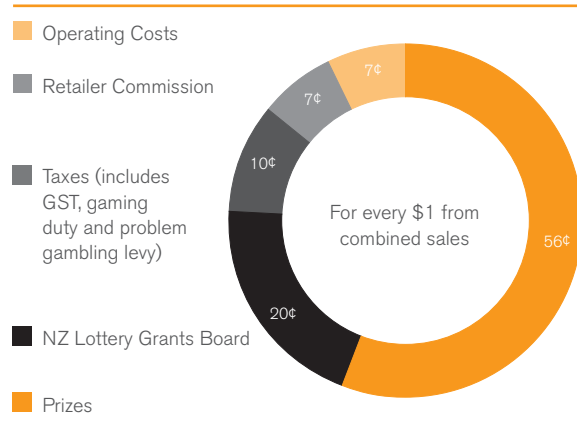


Supporting the Community

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 \$2.3 billion to the NZ Lottery Grants Board. About 76% of NZ Lotteries' sales go back to the community in the form of prizes and lottery grants - see *Figure 1*.

Figure 1: How NZ Lotteries' Money is Spent*



* Based on forecast results for the year ending 30 June 2008

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. They act as a major catalyst in creating a positive sense of identity for New Zealanders.

The remainder of the NZ Lottery Grants Board's funding supports well over 3,000 grass roots community activities and projects each year. This funding directly helps develop vibrant communities.

NZ Lottery Grants Board Allocations 2007/2008

	2007/2008 Allocation \$	One-off Allocation \$
Statutory Bodies		
Creative NZ	22,125,000	5,620,000
NZ Film Commission	9,587,500	2,440,000
NZ Film Archive	737,500	190,000
Sport & Recreation NZ	30,890,000	7,500,000
Total Statutory Bodies	63,340,000	15,750,000
Lottery Distribution Committees		
Specialist Committees		
Environment and Heritage	9,148,059	
Health Research	3,186,696	2,900,000
Marae Heritage and Facilities	6,885,007	
Minister's Discretionary Fund	315,000	
Outdoor Safety	8,277,941	4,500,000
Community Facilities Fund	13,000,000	
Total Specialist Committees	40,812,703	7,400,000
National Community Committee		
National Community Committee	13,443,875	
Individuals with Disabilities Subcommittee	4,415,317	
Pacific Provider Development Fund Subcommittee	500,000	
Total National Community	18,359,192	
Regional Community Committees		
Northland	1,420,074	
Auckland	6,897,768	855,323
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	133,086
West Coast/Nelson-Marlborough	1,411,418	
Canterbury/Kaikoura	2,617,120	
Otago/Southland	1,804,291	
Total Regional Community	24,988,105	988,409
Total Community	43,347,297	988,409
Total Distribution Committees	84,160,000	8,388,409
Grand Total	147,500,000	24,138,409
Total Allocation 2007/2008		\$171,638,409

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, including the Minister, 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 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 managements' decisions subsequently endorsed by the board. Disputed claims over this amount are dealt with directly by the board.



THE NEW ZEALAND GAMBLING ENVIRONMENT

Public Perceptions of NZ Lotteries

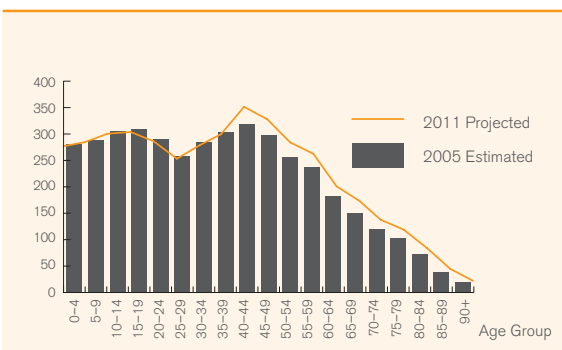
NZ Lotteries has a well established history and presence in New Zealand society. We are a New Zealand gambling operator with a pure community-benefit funding model. This model means that we are perceived differently from other gambling operators. After more than twenty years of operation, the public view NZ Lotteries, and our flagship product Lotto, as iconic kiwi brands.

We are known as a source of large-scale community funding. We are also perceived as a trusted organisation. As a Crown Entity, we are subject to stringent government reporting and monitoring requirements.

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 4.26 million at 31 March 2008 and population growth was estimated to be 40,200, or 1.0%, during the year to 31 March 2008. Natural increase contributed 35,500 to population growth and net migration contributed 4,700 during the same period. Half of New Zealand's population was over 36 years of age at 31 March 2008 and about one in eight were aged 65 years and over.¹

Figure 2:
New Zealand Population Demographic
2005 – 2011 (000's)



Source: Statistics New Zealand

The ethnic diversity of New Zealand's population has changed significantly since the beginning of Lotto in 1987. Population growth is now focused on Auckland which has much greater ethnic diversity than other cities. Only 59.6% of Auckland's current population was born in New Zealand compared with a national average of 73.5%.²

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

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 terms of our gaming processes and communication with the community.

The Gambling Act 2003

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

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

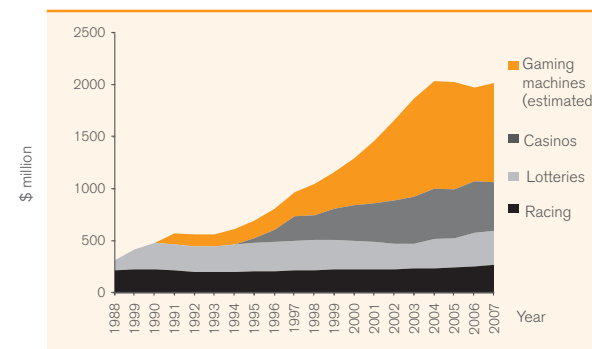
statutory responsibilities placed with the Ministry of Health under the Act make it appropriate for NZ Lotteries to consult with it and the Department of Internal Affairs on harm minimisation issues, particularly when changing existing games and developing new games.

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

Competition

Since Lotto was launched twenty-one 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 3*.

Figure 3:
New Zealand Gambling Market Expenditure
1988 – 2007 \$M



Source: Department of Internal Affairs - Gambling Expenditure Statistics 2007³

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,

with a drop in overall expenditure of \$12 million (0.6%) in 2005 and \$48 million (2.4%) in 2006, largely due to the smokefree legislation and tighter regulatory controls on gaming machines.

Expenditure on NZ Lotteries' products increased from 14% of overall expenditure in 2005 to 16.4% in 2007. However, gaming machines outside casinos still accounted for just under half the total gambling expenditure in New Zealand. NZ Lotteries' revenues have increased over the past four years. However, in real terms, revenue is below mid-1990's levels.

Direct competitors

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

TAB / The New Zealand Racing Board

- Offers racing and sports betting through retail and web channels.
- Under the Gambling Act 2003, the New Zealand Racing Board and racing clubs are permitted to operate gaming machines in TABs and racing clubs, and the New Zealand Racing Board can sell its products online.

Non-casino gaming machines

- As at 31 March 2008, the Department of Internal Affairs estimated that there were 20,018 gaming machines in pubs and clubs with 421 societies operating them from 1,569 venues. This amounts to approximately one machine for every 152 New Zealanders aged 20 or over.
- In 2007, 47% of all gambling expenditure in New Zealand was on non-casino gaming machines.
- Jackpot devices linking gaming machines within one outlet have been operating for several years. However, operators are restricted from advertising jackpots or using jackpot branding except inside the venue.
- Operators of gaming machines in pubs and clubs are required to provide customers with information on problem gambling and loyalty programmes are prohibited.
- All gaming machines in New Zealand must be connected to an electronic monitoring system operated by the Department of Internal Affairs.

¹ Department of Statistics, National Population Estimates, March 2008 quarter.

² Statistics New Zealand 2006 New Zealand Census of Population & Dwellings.

³ 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.

Casinos

- The Gambling Act now prohibits any further casino licences from being granted.
- In 2007, player expenditure in casinos was over 40% higher than that spent on NZ Lotteries' products.
- Operators of gaming machines at casino venues are required to provide customers with information on problem gambling and are restricted from advertising jackpots or using jackpot branding except inside the casino.

Interactive gaming

- A variety of overseas internet-based options are available to New Zealanders and these are increasing all the time, but advertising them in New Zealand is unlawful.
- Online poker and other games have shown great increases in popularity over recent years.
- 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, Australia, Asia and Europe.
- The games offered by blocs can be played online in New Zealand today, but advertising them in New Zealand is unlawful.

Indirect competition

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

Digital television

- Sky and TelstraClear have more than 750,000 subscribers paying an average of just over \$50 a month for their services.
- FreeView television was launched in New Zealand in April 2007. While there are no ongoing costs, set-up costs start at around \$199 for a satellite set-top box and \$448 for a HD set-top box.

Home entertainment

- Videos and DVDs are very common, offering choice and ease of use at an increasingly low cost. Several DVD hire websites have been launched, enabling customers to order DVDs online from the comfort of their own home.
- Sky introduced My Sky, 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 population⁴.
- 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. Vodafone users with 3G phones can subscribe to watch selected Sky TV channels on their mobile phones.

The Internet

- More than 80% of New Zealanders have access to the Internet and it is growing in importance as a communications vehicle.⁵
- 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 continues to grow, rising from 8.1% in December 2005 to 16.5% in June 2007.⁶

Other leisure and entertainment

- Consumers have multiple entertainment options for their discretionary dollars including music downloads, video and computer games, CDs, movies, magazines, travel and snack foods.
- Restaurants, cafés and bars are multiplying and diversifying, offering something for everyone's taste and wallet.

⁴ Vodafone NZ estimate as per their website April 2008.

⁵ Nielsen/NetRatings Market Intelligence April 2005.

⁶ OECD ranking on broadband penetration June 2007.

Economic Environment

The following is a report provided by Infometrics in April 2008 for the purpose of assisting NZ Lotteries in its planning for the three years ending 30 June 2011.

New Zealand's economic growth accelerated from 2.1% to 3.7% pa between September 2006 and September 2007, before slowing to 3.4% pa at the end of last year. Domestic indicators, including the housing market and retail sector, suggest the economy is now slowing rapidly, although the labour market remains tight and inflation pressures are persisting. The Government will do its best to stimulate economic growth ahead of the election, but households will take a more cautious approach to spending throughout much of the next year.

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

- Drought and a more uncertain global environment have conspired to undermine prospects for economic growth over the coming year. The former is probably more pivotal to New Zealand's prospects, as the expected stimulus to the economy from high dairy prices this season will fail to be fully realised. Combine soft consumption spending growth with weather and currency-related encumbrances for the export sector, and GDP growth is expected to dip to 1.9% pa by March 2009, and average little more than 2% pa over the next two years.
 - The unemployment rate fell to 3.4% over the second half of 2007. Employment growth edged up over the December 2007 quarter, but is expected to ease back to 1.4% pa over the year to March 2009 as the economy slows. Nevertheless, weak employment growth does not reflect a particularly soft labour market, but the difficulty that firms face in finding staff. Weak population growth will result in persistent labour shortages, keeping the unemployment rate below 4% over the next two years.
 - Household spending growth accelerated from 2.5% to 4.3% pa over 2007. Consumption growth will be decidedly weaker in the year to March 2009, at just 1.8% pa. Tax cuts and some improvement in consumer confidence will lead to a pick-up in spending growth, which will reach 3.3% pa by March 2010.
- The persistently tight labour market will maintain significant upward pressure on wages over the next two years. Overall real disposable income growth is expected to exceed real wage growth during that period, with a rising number of hours worked followed by tax cuts later this year and into 2009. Income growth (2.9% pa) will run ahead of spending growth (2.4% pa), with the lift in household saving reflecting KiwiSaver, high interest rates, increased economic uncertainty, and falling house prices.
 - Headline inflation has climbed from 1.8% to 3.4% pa since September last year. Various core measures of inflation indicate that price pressures remain widespread and that the pick-up in inflation is not simply the result of specific price shocks (e.g. food and petrol prices). A tightening labour market, rising capacity utilisation, increasing oil and energy prices, elevated inflation expectations, and higher global inflation will combine to keep inflation above 3% pa this year. A softer housing market and weaker domestic demand may relieve some of the price pressures, but inflation is not forecast to dip below 2.5% pa within the next two years.
 - The global credit crunch, combined with evidence that the housing market and retail sector are slowing, means that further interest rate rises are unlikely in the current cycle. Monetary conditions will remain tight this year, and it will be September 2009 before the Reserve Bank is comfortable enough to reduce the Official Cash Rate (OCR) from its current level of 8.25%. Persistent skill shortages, and their effect on wages and business costs, suggest that any easing in monetary conditions will be mild – the OCR will still be at 7.75% in early 2010.
 - The New Zealand dollar has soared to new post-float highs against the greenback. Interest rate cuts in the US, Europe, and the UK are widening the rate gap between here and offshore, supporting the exchange rate. The New Zealand dollar has also garnered strength from high commodity prices – a factor that has boosted the Australian currency as well. The trade weighted index is currently around 70, and is expected to be around 73 by mid-2009, and 68 by mid-2010.



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 April 2008 issue, *International Gaming and Wagering Business* assesses all 43 US state lotteries on a series of effectiveness and efficiency measures. Instead of the usual per-capita comparisons, *International Gaming and Wagering Business* 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 Business* approach gives an effectiveness or market-penetration measure that is not distorted by some lottery markets having more citizens with higher levels of disposable income. 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 2006/2007 financial year:

1. Effectiveness and market-penetration measure:

Fiscal 2006/2007 sales as a per cent of US state personal income.

NZ Lotteries' comparative ranking is 9th at 0.61%. (9th in 2005/2006)

2. Fiscal effectiveness measure:

Fiscal 2006/2007 government revenue as a per cent of US state personal income.

NZ Lotteries' comparative ranking is 11th at 0.18%. (11th in 2005/2006)

3. Efficiency measure:

Ranked by cents spent to generate one sales dollar in fiscal 2006/2007*.

NZ Lotteries' comparative ranking is 29th at 14.7 cents. (30th in 2005/2006)

* 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 2006/2007 revenue generated for community and government as a per cent of gross revenue (sales minus prizes)*.

NZ Lotteries' comparative ranking is 26th at 68.1%. (28th in 2005/2006)

* 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 2007.
- US state lotteries revenue and expense results were predominantly for the year to 30 June 2007.
- 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 2007.
- NZ Lotteries' revenue and expenses were for the year to 30 June 2007. 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

Our Business Goals

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 \$147.5 million contribution to the NZ Lottery Grants Board in 2006/2007.

Since 2007, NZ Lotteries has adopted a new strategic approach of widespread, incremental improvement delivered in a socially responsible manner. We remain committed to developing and supporting our extensive retail network, whilst a new area of focus for 2008 will be the management of our online sales channel, MyLotto.

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

- to have 1.7 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 at least 4% on average each year.

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 Growth Strategies

Our growth strategies share three common themes – to **connect** with more people on an emotional level and inspire thoughts of winning, to **convert** that emotional connection into regular purchasing behaviour and to **keep** players coming back through initiatives that drive loyalty and by offering great customer service.

Games

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

- offering compelling communications;
- delivering engaging offers; and
- introducing exciting new games.

Retail

We will continue to ensure we have a retail network that can reach, engage and excite players every week. This includes:

- optimising our network reach;
- developing our retailer relationships; and
- creating a fantastic in-store experience.

Interactive

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

- driving registration and play frequency;
- improving the player experience;
- enhancing services to players; and
- developing new games for the interactive channel.

Our Support Strategies

The growth strategies are underpinned by three business support strategies.

Operational Excellence

We intend to focus on improved system and process reliability and a commitment to quality in all aspects of our work. This includes:

- improving the processes and tools that support the provision of IT services;
- enhancing project management skills throughout the business; and
- driving improvements in service reliability, customer experience and efficiency.

Culture

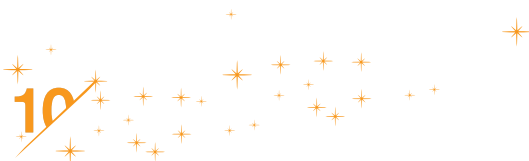
We plan to further develop a high performance culture. This includes:

- embedding NZ Lotteries' values throughout the organisation;
- enhancing strong leadership and coaching skills within the business; and
- better employee and channel partner engagement.

Corporate Social Responsibility

We look to take a leadership position on corporate social responsibility. Within this, the area of responsible gambling remains our priority. This includes:

- being a leader in the promotion of responsible gambling;
- considering the environment in our business practices; and
- working to produce good returns for the community.



Operating Intentions

Games

A reinvigoration of Lotto began in 2007/2008 with a refreshed Saturday draw, popular new advertising and an associated fresh new promotional strategy. Game changes made to Powerball in October 2007 have also helped differentiate it from Big Wednesday, confirming its place as the biggest jackpot game in New Zealand.

With two big jackpotting games, many of our customers have an infrequent purchasing relationship with us, as they only play when the jackpots reach certain levels. A key games strategy for the coming year is to encourage these infrequent players to play more regularly.

Key initiatives for the Lotto family of products include a focus on creating spikes of excitement through promotions which appeal to the everyday New Zealander, and leveraging the buzz created by large Powerball jackpots in order to build the emotional connection customers have with our games. New areas of work will be investigating retention initiatives to increase customer loyalty and undertaking a review of the Winning Wheel element of the Lotto game.

Big Wednesday has performed well above expectations since its launch. However, lower sales in the early weeks of the jackpot cycle over the past six months means the game is due for revitalisation in order to keep it fresh and exciting. Communications will focus on strengthening New Zealanders' desire for the ultimate lifestyle, and on bringing the prizes alive for customers.

Instant Kiwi acquired the tagline "The Little Thriller" in late 2006, and has continued to show a steady increase in sales through 2007/2008. Continuing this growth will come from communications which maximise purchases, and innovative and novel prize offers.

Trials of in-store promotional support for Keno will be expanded into full-scale initiatives across the retail network and we will also focus on developing online advertising linking to MyLotto.

NZ Lotteries will also continue its development of new games, with an aim of introducing a new game to the market every year. It is envisaged these games will be short-run and smaller in scale than current offerings, but they will assist in attracting new customers through their fresh appeal. The development of any new games will be subject to a thorough consultation process with NZ Lotteries' regulators.

Retail

The past four years have seen a significant increase in the size of our retail network from 640 to more than 1000 retail stores. We have also moved from the traditional 27m² store format to a more flexible in-store design which enabled many more retailers to join our network, extending our reach to communities which previously did not have convenient access to a lottery outlet.

The growth of the retail network has been an important contributor to the improvements in sales performance over recent years and we will continue working to enhance our network to ensure New Zealanders are provided with easy access to a lottery outlet.

Looking forward, NZ Lotteries has moved from an emphasis on a rapid expansion of the network to focussing on the quality of our retail stores and using our outlets to deliver a consistent level of great customer service.

We are developing our relationship with our retailers, identifying their needs in order to better understand and communicate with them. We will continue to develop and improve our recognition and reward programme which gives retailers an incentive to increase sales and to ensure customers are provided with a good in-store experience.

We will continue to involve retailers in the development of engaging in-store point of sale, the development of promotional offers and a trial of digital signage. We also plan to scope the next generation format for a Lotto outlet.

Interactive

In recent years, we have implemented a new gaming system, lottery terminals, management information system, corporate system and IP Wide Area Network. NZ Lotteries will work to ensure that this infrastructure remains capable of meeting business requirements.

The new IT infrastructure enabled the introduction of an online sales channel. MyLotto, the brand for NZ Lotteries' online sales platform, was launched in May 2008. The introduction of MyLotto involved revamping NZ Lotteries' previous corporate website, www.nzlotteries.co.nz.

With the online platform, MyLotto, now in place, NZ Lotteries' focus is to encourage customers to register and use this channel. A key target market for the online channel is 'forgetful' players, who often intend to purchase a ticket each week but who simply forget. These players will be attracted by the convenience offered by online purchasing.

A key aim for the coming year is to raise awareness of the MyLotto sales channel with customers by tagging NZ Lotteries' existing advertising campaigns with the MyLotto easy purchasing option.

The online sales channel will enable NZ Lotteries to collect a range of information on customer playing behaviour. By building on this data, we can develop enhancements to the website that will personalise our players' experience and improve the services we offer – while also ensuring our responsible play controls are robust and effective.

This first stage of the online strategy gives New Zealanders the ability to purchase the majority of our current products online. In subsequent stages, we envisage that customers will be able to choose from new products that are tailored to the online channel. These new online games would also be subject to consideration of our responsible gambling obligations, as well as a robust consultation process with government officials.

In further developing our online strategy, NZ Lotteries will continue to consider the experiences of other international lottery organisations that have successfully been operating in the online environment for many years. Lotteries in Australia, Canada, the United Kingdom, and Scandinavia make their products available for purchase over the Internet. Rigorously regulated, and generally government-owned, lottery operators are seen as being able to offer online products reliably and safely when compared with unregulated competitors.

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 is a significant step for NZ Lotteries, and 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 2 million New Zealanders – play Lotto at least once each year and 41% play Instant Kiwi.⁷ Problem gambling figures for the 2006 year show that 24, or 1.3%, of the 1,761 gamblers who received face-to-face counselling for the first time cited our products as their primary mode of gambling. This is lower than in 2005 when 2.1%, or 37, of the 1,798 gamblers who presented for face-to-face counselling for the first time, cited our products as their primary mode of gambling.⁸

NZ Lotteries supports programmes that help protect people most at risk through funds raised from 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 will implement the World Lottery Association's new Responsible Gaming Framework and continue to participate in problem gambling conferences and research programmes. We will continue to be a member of the Ministry of Health and Department of Internal Affairs' joint Expert Advisory Group as it continues to develop and implement its integrated problem gambling strategy.

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

- adoption of the World Lottery Association's Responsible Gaming Framework;
- 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 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;

⁷ *People's Participation in, and Attitudes to, Gambling, 1985 – 2005; Results of the 2005 survey, Department of Internal Affairs.*

⁸ *Problem Gambling Intervention Services in New Zealand: 2006 Service-user Statistics. Public Health Intelligence Monitoring Report No. 14, Ministry of Health, July 2007.*

- periodic reviews 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, all MyLotto sales pages, corporate collateral and at point of sale; and
- continued representation on the Ministry of Health and Department of Internal Affairs' joint Expert Advisory Group on problem gambling.

Corporate Citizen and Integrity Performance Measures

NZ Lotteries aims 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.

NZ Lotteries' corporate citizen initiatives and integrity performance measures are 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 in any one year; and
- ensure there are no convictions for the sale of Instant Kiwi to persons aged under 18 years.

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 touch 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 others' differences and help each other to achieve our full potential.

We are also focussing 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;
- annual staff conferences; and
- a focus on improved internal communications.

NZ LOTTERIES' PERFORMANCE MEASURES

Financial Performance Targets

	Actual 2006/2007	Estimate* 2007/2008	Budget 2008/2009	Projection 2009/2010	Projection 2010/2011
Total sales (\$m) (GST inclusive)	744.8	752.8	770.0	800.0	850.0
Net profit (\$m)	152.9	150.0	152.5	157.0	167.0
Paid to NZ Lottery Grants Board (\$m)	147.5	150.0	152.5	157.0	167.0

* The 2007/2008 estimate is based on 10 months' unaudited actual results and an estimate for May and June 2008.

Notes:

1. All financial information is GST exclusive unless described otherwise.
2. NZ Lotteries' 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 basis on which sales and net profit are measured.

Other Targets

	Actual 2006/2007	Estimate* 2007/2008	Budget 2008/2009	Projection 2009/2010	Projection 2010/2011
Achievement level for World Lottery Association's Responsible Gaming Framework**	n/a	2	3	3	4
Monthly population penetration***	58%	59%	60%	61%	62%

** The WLA's Responsible Gaming Framework has four levels of achievement, each with clear key performance indicators which lotteries must meet to quality for each level.

*** Population penetration = proportion of the total adult population who have purchased NZ Lotteries' products in the last month, taking into account multiple purchases (awaiting final figure for 06/07 actual).

Capital Expenditure

	Actual 2006/2007	Estimate* 2007/2008	Budget 2008/2009	Projection 2009/2010	Projection 2010/2011
Capital expenditure (\$m)	5.0	10.4	5.1	5.0	5.0

ANNUAL INFORMATION

PERFORMANCE TARGETS FOR THE 2008/2009 FINANCIAL YEAR

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.

Statement of Forecast Service Performance

For the year ending 30 June 2009

	Budget 2008/2009	Projection 2007/2008	Actual 2006/2007
Financial			
Total sales (\$ million)	770.0	752.8	744.8
Net surplus (\$ million)	152.5	150.0	152.9
Distribution to the NZ Lottery Grants Board (\$ million)	152.5	150.0	147.5
Operating expenses as a percentage of sales	7.4%	7.4%	7.0%
Operational			
Number of adults purchasing our products at least once a month	1.92	1.87	1.82
Proportion of adult population purchasing our products at least once a month	60%	59%	58%
Weekly spend per adult (\$)	4.62	4.56	4.56
Number of retail stores at year end	1,050	1000	973
Weekly sales per store (\$)	14,185	14,675	15,476
Retail stores with "new look" (percentage of total stores)	100%	100%	88.6%
Customers rating their in-store experience as "extremely satisfying" or "quite satisfying"	>73%	>72%	72%
Selling system up-time	99.98	99.98%	99.97%
Registered online players at year end (thousand)	60	10	n/a
Percentage of registered players purchasing at least once a month	70%	n/a	n/a
Achievement level for World Lottery Association's Responsible Gaming Framework	3	2	n/a
Problem gamblers seeking face-to-face counselling for the first time citing NZ Lotteries' products as their primary gambling mode	<100	<100	24
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	All	All	All
Compliance with all provisions of the Gambling, Fair Trading, Commerce, and Consumer Guarantees Acts	Full	not achieved*	Full
Complaints upheld by the Advertising Standards Authority	Nil	Nil	Nil

* 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 future.

FINANCIAL TARGETS FOR THE 2008/2009 FINANCIAL YEAR

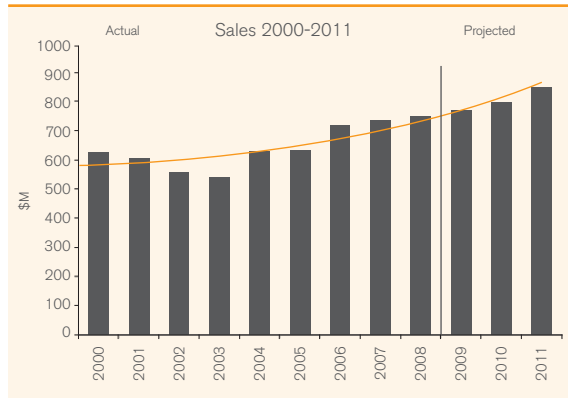
Key Financial Objectives

Our budget for 2008/2009 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 2008/2009 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



The launch of Big Wednesday in October 2005 contributed to the then record sales result for 2005/2006 of \$719.2 million. The strong sales performance was maintained in 2006/2007, though without as much help from Powerball jackpots as the previous year, with a new record of \$744.8 million (\$752.8 million when adjusted for there being 53 draws in 2006/2007 compared to 52 draws in other years). Big Wednesday jackpots have been less favourable in 2007/2008 but there have been two long Powerball jackpot runs in the second half of the year. Despite the tightening economy, we expect an increase of 1.1% on 2006/2007 (2.2% allowing for extra Saturday draw in 2006/2007) to a final result in the vicinity of \$752.8 million.

We are budgeting an increase in sales to \$770 million for 2008/2009. The actual outcome could be better, but much will depend on the state of the domestic economy, Powerball and Big Wednesday's jackpotting behaviour and the implementation and uptake of our online sales channel.

NZ Lotteries is entering its second year of the new strategic approach of widespread, incremental improvement as the driver of growth in the business. The new approach was developed in recognition that much opportunity still exists to increase play frequency and attract new players, as was demonstrated by the successful changes made to Powerball in late 2007.

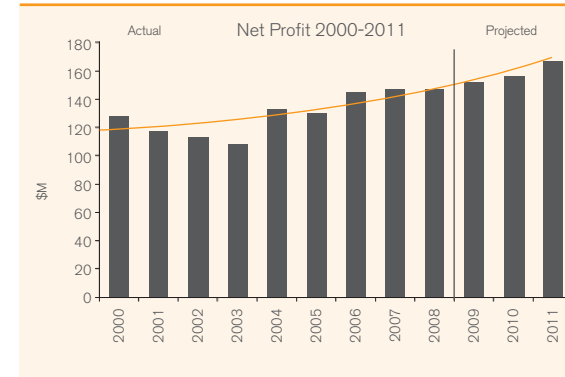
As outlined previously, part of our business strategy is to introduce at least one new, smaller, game per year, and we aim to launch the first of these in 2008/2009. Strengthening and refreshing our game portfolio will allow us to spread our revenue risk across the week and address the difference in product spread between us and the other Australasian lotteries.

We are continuing our focus on the quality of the retail experience and on introducing higher levels of store customisation options based on unique store needs. Our retail stores have a strong role to play developing a good relationships with customers in emotionally connecting with players and ensuring they keep coming back each week to play our games.

The introduction of our online sales channel, MyLotto, in 2008, brings a new area of focus for NZ Lotteries. By offering New Zealanders the ability to purchase our products online, we are meeting the demands of the online community market which will help drive sales through encouraging infrequent players to purchase more frequently through the convenience offered by MyLotto. While we expect our retail network to remain the dominant sales channel, this additional channel will provide a valuable new revenue stream to help generate future growth.

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



Decreasing sales over several years led to an associated fall in profitability. However, in 2003/2004 buoyant sales, assisted by three big Powerball jackpots, gave a large boost to profits. Earnings in the 2004/2005 year were of a similar level, while those of 2005/2006 saw an increase of nearly \$15 million after the introduction of Big Wednesday and other initiatives.

Despite there being fewer large Powerball and Big Wednesday jackpots in 2006/2007, profits continued to rise, finishing 3.3% ahead of the previous year (2.0% when adjusted for there being 53 draws in 2006/2007 compared to 52 draws in 2005/2006).

Earnings in 2007/2008 are projected to be around \$150 million, a \$2.9 million (1.9%) decrease on the previous year but in line with the outturn for 2006/2007 once the effect of the extra Saturday draw in that year is taken into account. As noted previously, sales are expected to be up on 2006/2007 by about 2.2% on a like-for-like basis. However, this has been offset by increased costs in the IT area, partly in connection with preparations for our online sales channel and partly reflecting higher support costs for systems acquired in 2006.

We expect earnings in 2008/2009 to be around the same level as the projected outturn for 2007/2008.

PROSPECTIVE FINANCIAL INFORMATION

The prospective financial statements reflect NZ Lotteries' budget for the year ending 30 June 2009 and the forecast results and financial position for the year ending 30 June 2008. 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 NZ Lotteries' board reasonably expects to occur associated with the actions the board reasonably expects to take as at 1 June 2008. 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 2008 incorporate the actual financial results for the ten months to 30 April 2008.

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 2009

	2009 Budget \$'000	2008 Projection \$'000	2007 Actual \$'000
REVENUES			
Sales including GST	770,000	752,800	744,849
Sales excluding GST	731,999	715,649	708,837
Cost of sales (Note 5)	529,972	517,849	512,976
Gross profit	202,027	197,800	195,861
Other revenue	7,600	7,800	8,771
EXPENSES			
Promotion and retail support	26,597	28,960	26,006
Property, plant and equipment depreciation	6,535	5,255	4,667
Computer software amortisation	830	741	749
Gaming system	5,778	4,603	4,318
Employee benefits	9,886	8,956	8,609
Other	7,497	7,085	7,711
Total expenses	57,123	55,600	52,060
Revaluation of land and building	-	-	324
Profit	152,504	150,000	152,896
Distribution to the New Zealand Lottery Grants Board	152,504	150,000	147,500
Profit after distribution to the New Zealand Lottery Grants Board	-	-	5,396

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 2009

	2009 Budget \$'000	2008 Projection \$'000	2007 Actual \$'000
Profit after distribution to the New Zealand Lottery Grants Board	-	-	5,396
Total recognised revenues and expenses for the period	-	-	5,396
Equity at beginning of the period prior to adoption of NZ IFRS	41,713	41,713	36,277
Adoption of NZ IFRS at beginning of period	-	-	40
Equity at beginning of the period after adoption of NZ IFRS	41,713	41,713	36,317
Net profit for the period as above	-	-	5,396
Equity at the end of the period	41,713	41,713	41,713

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

Prospective Balance Sheet

As at 30 June 2009

	2009 Budget \$'000	2008 Projection \$'000	2007 Actual \$'000
ASSETS			
Current assets			
Cash and cash equivalents	37,265	36,173	40,465
Term deposits	20,636	23,829	42,623
Debtors and other receivables	8,400	8,000	9,188
Prepayments	3,305	3,125	3,457
Inventories	3,150	2,950	3,452
Total current assets	72,756	74,077	99,185
Non-current assets			
Property, plant and equipment	33,775	35,159	33,064
Computer software	1,869	2,699	1,474
Total non-current assets	35,644	37,858	34,538
Total assets	108,400	111,935	133,723
LIABILITIES			
Current liabilities			
Creditors and other payables	45,340	45,120	57,989
Annuity prize liabilities	1,150	1,250	1,302
Provision	-	-	1,091
Employee entitlements	475	500	525
Total current liabilities	46,965	46,870	60,907
Long term liabilities			
Annuity prize liabilities	4,500	5,125	5,840
Employee entitlements	25	30	37
Total long term liabilities	4,525	5,155	5,877
Prize reserve account	15,197	18,197	25,226
Total liabilities	66,687	70,222	92,010
EQUITY	41,713	41,713	41,713
TOTAL LIABILITIES AND EQUITY	108,400	111,935	133,723

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 2009

	2009 Budget \$'000	2008 Projection \$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Ticket sales	731,226	717,246
Net GST received	260	280
Other receipts	5,531	5,555
Prize payments	(438,123)	(431,298)
Lottery duty	(43,124)	(42,095)
Retailers' commission	(53,496)	(52,870)
Employee costs	(9,891)	(10,252)
Other payments	(41,294)	(46,827)
Net cash flow from operating activities	151,089	139,739
CASH FLOWS FROM INVESTING ACTIVITIES		
Net reduction in term deposits	3,118	18,869
Sale of property, plant and equipment	95	63
Interest received	5,870	7,090
Purchase of property, plant and equipment	(5,256)	(7,273)
Purchase of computer software	-	(2,357)
Net cash flow from investing activities	3,827	16,392
CASH FLOWS FROM FINANCING ACTIVITIES		
Discharge of annuity prize liabilities	(1,395)	(1,455)
Payments to the New Zealand Lottery Grants Board	(152,504)	(158,893)
Net cash flow from financing activities	(153,899)	(160,348)
Net increase in cash balances	1,017	(4,217)
Opening cash and cash equivalents balance	36,248	40,465
Closing cash and cash equivalents balance	37,265	36,248

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

NOTES TO THE FORECAST FINANCIAL STATEMENTS

1. Accounting Policies

Reporting Entity

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

Basis of Preparation

Accounting compliance

The financial statements are prepared in accordance with New Zealand generally accepted accounting practice. They comply with NZ IAS 34 (Interim Financial Reporting Standard), all other New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable financial reporting standards.

NZ Lotteries has determined that it is a profit-oriented entity for the purpose of complying with New Zealand generally accepted accounting practice and NZ IFRS.

The financial statements for the year ending 30 June 2008 will be the first complying with NZ IFRS. An explanation of how the transition to NZ IFRS is likely to affect the reported financial position, financial performance, and cash flows of NZ Lotteries is provided in note 2.

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 and in preparing an opening NZ IFRS balance sheet as at 1 July 2006 for the purposes of the transition to NZ IFRS.

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 2007, other than the impact of adoption of NZ IFRS.

Comparatives

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

Computer software

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

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

Contingent assets and contingent liabilities

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

Employee entitlements

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

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

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

Financial instruments

Cash and cash equivalents, and term deposits

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

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

It is NZ Lotteries' policy to restrict its investments to instruments issued or guaranteed by either the New Zealand Government or registered New Zealand banks. Although investments are normally held to maturity, they are readily marketable and therefore may be regarded as liquid assets. The value of investments held fluctuates as changes in market interest rates occur. However, the extent of such fluctuations in value is limited.

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

Annuity prize liabilities

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

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 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. 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.

The net current fair value of the land and building is assessed by an independent valuer every three years in accordance with standards issued by the New Zealand Property Institute. The book values are then adjusted accordingly.

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

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.
- Fringe benefit tax.

2. Explanation of transition to New Zealand Equivalents to International Accounting Standards (NZ IFRS)

Transition to NZ IFRS

NZ Lotteries' financial statements for the year ending 30 June 2008 will be the first financial statements that comply with NZ IFRS. NZ Lotteries has applied NZ IFRS 1 (First-time Adoption of NZ IFRS) in preparing these financial statements. NZ Lotteries' transition date is 1 July 2006 and, accordingly, the opening NZ IFRS balance sheet has been prepared as at that date.

Exemptions from full retrospective application elected by NZ Lotteries

In preparing the financial statements in accordance with NZ IFRS 1, NZ Lotteries has applied the mandatory exceptions and not the optional exemptions from full retrospective application of NZ IFRS.

Reconciliation of equity

The change in equity, resulting from the transition from previous NZ GAAP to NZ IFRS as at 1 July 2006 and 31 December 2006, reflected a reduction in the provision of \$2,684,000 for the refurbishment of retailer premises as at 30 June 2006 by \$40,000. NZ IAS 37 (Provisions, Contingent Liabilities and Contingent Assets) requires that where the effect of the time value of money is material, the amount of the provision shall be the present value of the expenditures expected to be required to settle the obligation. In accordance with NZ IFRS 37, the present value of the provision was re-stated on 1 July 2006 as \$2,644,000. This adjustment resulted in an increase in equity of \$40,000 as at 1 July 2006. There was no change in equity as at 30 June 2007 resulting from the transition.

Reconciliation of profit

The effect of the transition was to reduce 31 December 2006 and 30 June 2007 profit by \$40,000 due to the provision being restated at the actual cost required to settle the obligation. Refer to the details above in the transition at 1 July 2006.

Asset reclassification

- Computer software (which is not integral to the operation of the hardware in property, plant and equipment) has been separated out from property, plant and equipment and reclassified as a separate intangible asset.
- Term deposits with maturities of up to three months from acquisition date are now reflected as part of cash and cash equivalents. Term deposits and other investments with maturities of more than three months from acquisition date are classified on their own. Previously, all term deposits, regardless of their maturity, were classified as investments.

3. Compliance with Financial Reporting Standard No. 42

These prospective financial statements comply with FRS42 (Prospective Financial Statements).

4. Principal assumptions

The principal assumptions made in arriving at the forecasts for the remainder of 2007/2008 and for 2008/2009 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 June 2007.
- Total retail sales in New Zealand as measured by Statistics New Zealand's Retail Trade Survey will increase by between 2% and 3% in actual terms in 2008/2009.
- There will be no statistically abnormal series of jackpot runs for Powerball or Big Wednesday.
- The number of lottery outlets will have increased to 1,050 outlets by 30 June 2009.
- There will be no major global lotteries initiative over the internet during 2008/2009.

5. Cost of sales

	2009 Budget \$'000	2008 Projection \$'000	2007 Actual \$'000
Lottery duty	42,350	41,404	40,967
Problem gambling levy	684	669	457
Retailers' commission	53,550	52,696	52,145
Prizes paid and payable	399,219	390,883	388,455
Prize reserve account	28,769	27,555	25,852
Ticket costs	5,400	4,642	5,100
	529,972	517,849	512,976

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