

The background is a solid orange color with a dense pattern of small, colorful triangles in shades of yellow, purple, blue, and pink, scattered across the entire surface.

Annual Report 2013/14

The logo is contained within a white triangle pointing upwards. It features the word "Lotto" in a bold, orange, sans-serif font, with a small blue triangle above the letter 'o'. Below "Lotto" is the text "New Zealand" in a smaller, orange, sans-serif font.

Lotto
New Zealand

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Highlights of the year

Record transfer to the community

Lotto New Zealand again increased the amount transferred to the NZ Lottery Grants Board, distributing a record amount of \$231.2 million.

An outstanding sales result

A new record sales result of \$988.8 million was achieved this year, led by an unprecedented jackpot run in both Powerball and Big Wednesday at the start of the year.



Ticket checker in your pocket

Lotto New Zealand's ticket-checker app for smartphones lets customers check their tickets from wherever they are and directs them to the closest store to claim their winnings.



Winners high-five the world

We launched an epic new Powerball campaign in February centred around the excitement of winning a life-changing amount of money - it will make you want to high-five the world.

Lotto at the checkout

In-lane sales of Lotto products were introduced in over 100 Countdown stores around the country, making it easier for Kiwis to pick up their weekly Lotto ticket.

Subscribe to Lotto

We introduced a handy subscription service to MyLotto, which means customers need never forget to buy their favourite ticket again.

Lotto New Zealand finds multi-millionaire

We pulled out all the stops to find a Christchurch Big Wednesday player and unite him with \$22 million in prize money, after it went unclaimed for almost a month.

Thanks Sport Makers!

Our partnership with Sport New Zealand helped us provide over 10,000 items of sporting merchandise to clubs, teams and volunteers around the country.

World class responsible gaming

Lotto New Zealand's responsible gaming programme has been officially certified to Level 3 (out of four possible levels) by the World Lottery Association under its Responsible Gaming Framework.

Largest individual Powerball prize

A self-proclaimed "westie" from Auckland took home more than \$33 million in October, the largest individual Powerball prize in the history of the game.



The business of Lotto New Zealand

Our purpose

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

Our background

The New Zealand Lotteries Commission (known as Lotto New Zealand) was established in 1987 and operates as a Crown entity under the Gambling Act 2003. We exist to promote, organise and conduct lottery games for the benefit of New Zealand communities.

Our primary goal is to generate improved earnings in order to maximise the contribution we make to building strong and sustainable communities, while minimising the incidence of any problem or underage gambling associated with our products.

We employ approximately 125 staff, who are mostly based in Auckland, with a small number of our retail support staff based in different regional areas. Our retail network encompasses over 1,300 lottery outlets across the country that employ more than 5,000 people, making it the single largest retail network in New Zealand.

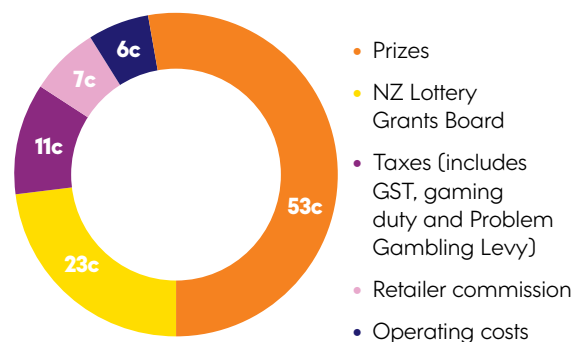
Lotto was introduced to New Zealand in 1987. It was our first game and for over 27 years it has remained New Zealand's flagship lottery game. Our product range has expanded over the years to include Lotto Powerball, Lotto Strike, Big Wednesday, Instant Kiwi, Bullseye and Keno.

Profits from Lotto New Zealand are transferred to the NZ Lottery Grants Board, which works to build strong, sustainable communities by funding a wide range of social, community, arts, heritage, sports, recreation, and health and research activities across New Zealand. Lottery funding is given to over 3,000 of these organisations and projects each year. The NZ Lottery Grants Board is also a major funder of Sport New Zealand, Creative New Zealand and the New Zealand Film Commission.

The success of our business is built on the integrity of our products, the transparency of our systems and our commitment to growing our business without adverse social outcomes.

How Lotto New Zealand's money is spent*

For every \$1 from combined sales:



*Based on the results for the year ended 30 June 2014

The Lotto New Zealand Board

The Lotto New Zealand Board is responsible for Lotto New Zealand's overall policy and direction. The Board members are appointed by the Government. The day-to-day running of Lotto New Zealand is the responsibility of the Chief Executive and other members of the Executive team.

Judy Kirk ONZM, Chair



Judy Kirk was appointed Chair of the Board in May 2009. She is an experienced leader with a wide knowledge of fundraising and business. Judy previously chaired the NZ Lottery Grants Board's national welfare committee and the

Rotorua regional lottery distribution committee for five years. She also served as President of the New Zealand National Party for seven years. Judy is a Justice of the Peace and was appointed an Officer of the New Zealand Order of Merit in 2011, for services to the community. She is also a director of JMK Consulting and Metservice New Zealand.

Miranda Burdon



Miranda Burdon was appointed to the Lotto New Zealand Board in October 2010. She is an experienced director with more than 14 years' experience in professional governance roles. Miranda had a successful career in general management

and sales and marketing for various high-profile New Zealand businesses, and was most recently the General Manager of Global Marketing for Pernod Ricard NZ. In 1999, she studied at Harvard University as the recipient of a Trade New Zealand (now New Zealand Trade and Enterprise) export award.

Dr Richard Jones Deputy Chair



Richard Jones joined the Board in July 2009 and became Deputy Chair in October 2010. Richard is an experienced professional company director with appointments in both the private and public sectors. His current appointments

include directorships of Centreport Limited, Gallagher Group Limited, Callaghan Innovation, Real Estate Institute of New Zealand and Telarc SAI Limited. Richard has an extensive background in management, especially in business development and international brand marketing.

Richard Holden



Christchurch businessman Richard Holden was appointed to the Lotto New Zealand Board in January 2010. Richard is a managing director of a Christchurch-based financial planning firm. He has more than 30 years' experience in

financial services. He also has an extensive background in community involvement, including past roles as president of the Marist Rugby Football Club and a member of the general committee of the Canterbury Rugby Union.

Tony Mossman



Tony Mossman was appointed to the Lotto New Zealand Board in May 2011. He is a director of Barnes Mossman Limited, a Hawke's Bay-based chartered accountancy firm. Within this role, Tony has a diverse range of both commercial

and rural clients and has a special interest in the agriculture and forestry sectors. Prior to being in public practice, he spent seven years in corporate banking roles in both the UK and New Zealand.

Chair and Chief Executive's report

We are pleased to report exceptional financial results for the year ended 30 June 2014 and a record transfer of \$231.2 million to the NZ Lottery Grants Board for distribution to the community.

Overall, sales for this year, at \$988.8 million, increased by \$42.0 million (4.4%) compared to last year. As usual, all of our profit has been transferred to the NZ Lottery Grants Board for onward distribution to the community. Profit for the year was a record \$226.2 million and a special distribution of \$5 million, relating to the sale of Lotto New Zealand's Auckland building, was also made to the NZ Lottery Grants Board.

The total transferred for community purposes in 2013/14 was \$231.2 million, up \$29.4 million (14.6%) on last year and was more than what was budgeted by \$10.8 million (4.9%). This has allowed the NZ Lottery Grants Board to allocate increased funding for its national and regional committees, providing a significant increase in support for more than 3,000 community projects around New Zealand. Increased lottery funding also provides crucial support for the activities of New Zealand's sports people, artists, and filmmakers through Sport New Zealand, Creative New Zealand and the New Zealand Film Commission.

Transfer to the community up by \$29.4 million

We know that large jackpots appeal to our players and, in any year, the length of jackpot runs and the corresponding size of big prize offers have a significant influence on sales. This year, we experienced three long Powerball jackpot runs with 11 weekly draws of \$20 million or more, including a Powerball jackpot run in the first quarter leading to a \$32 million Must Be Won draw.

To put this run of jackpots in perspective, last year there were half as many jackpots of \$20 million or more across Powerball and Big Wednesday.

Putting our strategies into action

In order to strengthen our portfolio, we remain focused on keeping our brands fresh and engaging for our customers.

During the year, Powerball's "High Five" campaign was launched, which was the first major refresh of Powerball advertising for over three years.

The success of Instant Kiwi is reliant on offering exciting games that customers want to play, which means a diverse range of well-designed tickets. During the year, we increased the number of different Instant Kiwi games on offer to 17, thereby increasing customer choice at each price point.

To increase convenience of purchase, we need to respond to changes in consumer behaviour and ensure our products are located where people choose to shop. During the year, we introduced the ability for customers to buy lottery tickets at the supermarket checkout. A limited range of products is now available at the checkouts in over 100 Countdown supermarkets throughout New Zealand. The feedback from our customers about the added convenience has been positive, as it means they don't have to queue again in a busy shop to buy a Lotto ticket.

We continue to introduce new functionality to our online purchasing channel MyLotto, to make it as easy as possible for customers to play our games. During the year, we introduced the ability for online customers to subscribe to a recurring ticket purchase. Regular MyLotto customers are able to subscribe to a weekly purchase of Lotto or Big Wednesday tickets for a period of 3, 6 or 12 months, meaning they'll always be in the draw and never forget to buy a ticket. This service was launched just before the Christmas holidays and proved to be instantly popular, with over 4,500 customers signing up for the service by the end of the year. MyLotto sales now contribute 7.5% of total sales.

At the end of the year, we launched a smartphone application that enables our players to check their tickets from their phone and find out instantly if they're holding a winner. The app quickly captured our customers' attention and was downloaded over 50,000 times in the first three months and for a time was ranked as the number one free download in the Apple App store.

Our ticket-checker app was ranked as the number one free download

We are taking a more targeted approach to our communications and making our messages more relevant to our retailers and customers. We created a new retail partnership programme called WinWin, which has moved away from the traditional one-size-fits-all approach and provides more focus and support for high performing stores. WinWin encourages retailers to promote games, highlight winning tickets, maintain high store standards and raise awareness of Lotto-funded community projects. Our territory representatives work closely with each WinWin store and help them create localised marketing and community collateral.

In 2013, Lotto New Zealand entered into a three-year partnership with Sport New Zealand to reward and recognise sporting volunteers across New Zealand. Every month, Kiwis involved in sport are invited to 'Thank a Sport Maker' and recognise anyone they know who volunteers their time to help make sport happen in this country - everyone from coaches, managers, referees, umpires, and ballboys. Not only are we thanking volunteers for their time and commitment, but we're providing volunteers from all regions of New Zealand with resources to support their volunteering efforts - things like netballs, soccer balls, cones, bibs, medical kits, jackets etc. Over 10,000 items of sporting merchandise were given out this year as part of the Thank a Sport Maker programme.

Minimising the harm from problem and underage gambling is central to our operations. We cannot achieve our objective of maximising benefits for New Zealand communities if playing our products is causing undue harm. We are always conscious of the potential for problem gambling associated with our products. One person who has a problem is one person too many. At all times we encourage players to be informed, have fun and know their limits.

Lotto New Zealand operates a world class responsible gaming programme, which during the year was recognised by the World Lottery Association under its Responsible Gaming Framework. The World Lottery Association sets the international benchmark for responsible gaming and certified our responsible gaming programme to Level 3 (out of four possible levels). This recognition was the culmination of an internal review to improve our harm minimisation framework to ensure that we are demonstrating the highest standards of responsible gaming. Lotto New Zealand is one of only three lotteries in the Asia Pacific region to be certified to Level 3. We will continue to strengthen our programme, with the intention of seeking the highest possible level of recognition.

We successfully upgraded our gaming system environment, which is the biggest investment we have made in our core gaming system in almost 10 years. The major upgrade was a more cost-effective solution than a complete replacement and ensures our systems and supporting platforms meet our future needs by significantly reducing operational risk, increasing capacity and extending the life of the system.

Lotto New Zealand closed its Wellington office during the year and established a satellite office for our Wellington-based sales team. We also sold our building in Auckland and moved to a leased location in Newmarket, Auckland. The consolidation of our core business functions in Auckland and the new office make it easier for staff to collaborate.

Financial performance

The Lotto family of products (Lotto, Powerball and Strike) continues to account for the lion's share of our business. Sales for the year amounted to \$631.5 million, almost two-thirds of total sales. This was 12.2% up on sales for last year.

Last year Big Wednesday sales enjoyed a resurgence as a result of a new advertising approach and a big jackpot run. However, this year we saw a slip in underlying sales levels. Despite the long jackpot run in the first half-year, sales of \$159.6 million were down by 16.6% on last year's stellar performance.

Total sales for Instant Kiwi amounted to \$150.9 million, which was an increase on last year's sales of \$4.8 million (3.3%).

Sales through our online sales channel MyLotto amounted to \$73.9 million, accounting for 7.5% of total sales compared with 6.2% last year. Our mobile MyLotto channel was introduced only last year but it continues to grow in popularity and now accounts for approximately 30% of all online sales, compared with 12% last year.

Operating expenses for the year were \$60.8 million, down from last year by \$1 million (1.5%).

Lotto family sales up by 12.2%

Over \$544 million in prizes became payable to winners throughout New Zealand during the financial year. This includes a record-breaking week at the end of the first quarter, where over \$55 million in First Division prizes were won by two players and over \$65 million prizes in total were won by lottery players across New Zealand.

Net profit, all of which has been distributed to the NZ Lottery Grants Board, amounted to \$226.2 million. Including an extra distribution relating to the sale of the Auckland building, the total amount transferred to the NZ Lottery Grants Board was \$231.2 million, up \$29.4 million (14.6%) on last year.

The balance in the prize reserve account at the end of the financial year was \$39.0 million, compared with \$43.2 million the year before. The prize reserve fund is used exclusively for the purpose of augmenting the prize pools for various draws and games and to fund special prizes. The balance in the account fluctuates as a result of a number of factors, the most significant of which is the frequency of Lotto Powerball and Big Wednesday First Division wins. Long jackpot runs typically result in an increase in the balance. Conversely, wins early in the jackpot cycle cause a decrease in the account balance.

Looking forward

Our vision is to be a world leading lottery for the maximum benefit of New Zealand communities.

We have set an ambitious but achievable goal of generating \$220 million profit a year, on average, for the benefit of New Zealand communities over the three years from 2013/14. At the end of year one, we have returned profit of \$226.2 million to the NZ Lottery Grants Board and are on track to achieve this goal.

Our budgeted profit for 2014/15 is \$225.1 million. Over the next 12 months, we will focus on our games, our relationship with our customers, and effective use of different channels, in order to achieve this goal.

We offer great games that give Kiwis the chance to dream. For our business to continue to succeed, we need to make sure we're offering a range of games that are fun to play and appeal to a broad cross-section of New Zealanders. Over the next 12 months, we'll be looking closely at all of our games and will make changes to any games that are not operating to their full potential. We will also identify any gaps in our offering, so that we can introduce new games to attract new customers.

Making sure our players have a great experience when they interact with us is key to our success. We want to encourage less frequent players to play more often through relevant communications and by creating a connection with the Lotto brand. By listening to our customers, we will continue to develop new products and services that they want. We will continue to strengthen our responsible gaming programme, as we work towards attaining the highest level of certification under the World Lottery Association's Responsible Gaming Framework.

Technology and the modern world are changing the way that customers shop. To continue to be relevant

to our players, we need to be able to offer our games wherever and whenever our customers wish to shop. We will adapt the way we offer our games to suit our customers' needs, both in the physical retail environment and in the digital space. We need to be where our customers are, and we will continue to expand our retail network, focusing on areas where store penetration is lower, and further develop the technology required to sell our games through third-party point of sale systems.

Thank you

We would like to acknowledge everyone that contributed to Lotto New Zealand's outstanding year. The great results achieved this year would not have been possible without the input and support from our staff and our retail network. We thank you and look forward to working with you over the coming year as we generate more funding for our communities.

Judy Kirk
Chair

5 September 2014



Wayne Pickup
Chief Executive

5 September 2014



Winners

Lotto: New Zealand's favourite game

After 27 years, Lotto remains our most popular game and a regular part of life in New Zealand. Lotto creates winners across the country each and every week, with big prizes being won in Whangarei to Wanaka and everywhere in between. In 2014, over 2.5 million winners won more than \$168 million in prizes.

One of this year's lucky Lotto winners was a woman from Taupo, who won \$1 million on a ticket she received as a Christmas gift.

The winner was blown away by the win and couldn't wait to tell the person who gave her the lucky ticket that she was paying off their mortgage!

Strike offers Lotto players another chance to win and this year gave away more than \$48 million in prizes to over eight million winners.

The Winning Wheel continues to be a highlight of Saturday's live Lotto draw, with this year's 52 featured spinners taking home over \$8 million.

Where's the \$22.6 million winner?

After almost a month went by and Big Wednesday's \$22.6 million jackpot was still not claimed, Lotto New Zealand pulled out all the stops to find the unsuspecting winner and unite him with this life-changing prize.

Despite having someone turn up on his doorstep and tell him he'd won the largest lottery prize ever won in the South Island, the winner took it all in his stride and was calm about the win. However, it didn't take long for the excitement to kick in and he started dreaming about how his newfound fortune would change his family's life.

Three other Big Wednesday First Division jackpots were won this year, and almost three million players won more than \$73 million in prizes overall.





Instant Kiwi multiplies Kiwis' money

A regular trip to the shops turned into an unforgettable day for an Invercargill man in December, when he won \$250,000 on a 20x Money Multiplier Instant Kiwi ticket after deciding to buy the ticket with change he had jingling in his pocket.

After scratching the ticket, the winner almost threw it away, not realising just how much it was worth. Luckily he checked the ticket again before throwing it in the bin, and then quickly rushed in-store to claim his prize.

Almost 11 million players won over \$94 million worth of prizes on Instant Kiwi tickets this year, including 169 prizes of \$10,000 or more.



Kiwis win big every day with daily games

Keno and Bullseye are our daily games that give players the chance to turn small money into big prizes. The entry for Keno starts at a dollar and gives players the chance to win up to \$250,000, and the entry for Bullseye starts at two dollars and gives players the chance to win up to \$400,000.

MyLotto: creating winners online everyday

A MyLotto player from Christchurch ended his winter break with a bang, after checking his ticket online before heading home from holiday and realising he had won \$1 million with Lotto First Division in October.

It was a particularly memorable drive home for the winner and his wife, who spent the journey dreaming of what they would do with their newfound fortune.

The winning didn't stop there for MyLotto players, with five other Lotto First Division prizes and 33 promotional prizes won by players across the country.

MyLotto created more than 1.5 million winners in the 2014 financial year, who won more than \$21 million in prizes through our online and mobile channel.



Self-proclaimed 'westie' wins \$33 million with Lotto Powerball

After Powerball reached a Must Be Won draw in October, a self-proclaimed 'westie' from Auckland took home \$33 million - the largest individual Powerball prize ever won in the history of the game.

Having heard on the radio where the winning ticket was sold, the winner kept his priorities in check and headed to the gym rather than rushing in-store to check his ticket. He knew that he wouldn't be able to concentrate on his workout if he really was the lucky winner of \$33 million.

The winner has his wife to thank for the life-changing win, as her lucky number was the Powerball number that netted them the multi-million dollar prize.

Five other Kiwis won big with Powerball this year, with three of these winners taking home prizes of more than \$10 million. Over 195,000 winners took home more than \$115 million with Lotto Powerball.

New Zealand community winners

Lotto New Zealand is the sole funder of the NZ Lottery Grants Board. Our profits are a major source of funding for sport and recreation, arts and culture, and community services throughout New Zealand. Through the NZ Lottery Grants Board, we are a major funder of Sport New Zealand, Creative New Zealand and the New Zealand Film Commission and we contribute to more than 3,000 community activities and projects each year.

In 2013/14, we provided over \$230 million to the NZ Lottery Grants Board to create positive outcomes for our communities. Here are just some of the ways that lottery funding has been used to build strong, sustainable communities.

New Treaty of Waitangi museum



Waitangi is rich in history and the stories of the momentous events that shaped our nation. A prominent feature of the story of New Zealand is the signing of the Treaty of Waitangi in 1840.

Lotto New Zealand is proud to support the building of a new museum and education centre at the Treaty Grounds through a grant of \$5.75 million from the NZ Lottery Grants Board to the Waitangi National Trust.

The museum will enable the story of Waitangi and the origins of the nation to be told in greater depth, so that we can share this story with

international visitors and with Kiwis who travel to Waitangi from all over the country.

The museum will feature exhibition and learning spaces that use a wider range of media. The project is set for completion by Waitangi Day 2016.

This year, the NZ Lottery Grants Board's Significant Projects Fund awarded \$28 million to 12 significant community projects across New Zealand, including developing the Treaty of Waitangi museum, rebuilding Christchurch's iconic Isaac Theatre Royal and developing the Len Lye Centre in New Plymouth.

Keeping our landscape native

Lotto players are doing their part to keep New Zealand beautiful by helping Queenstown to fight proliferating pines.

Lotto funding supports the Wakatipu Wilding Conifer Control Group (WCG), whose motto is, "We don't hate the trees. We love the scenery."

Queenstown is renowned worldwide for its stunning and iconic landscapes, but wilding conifers threaten and replace native beech forests and tussock.

WGC relies on volunteers and aims to control 'wilding trees', which are a menace in tussock grasslands and above the bushline. They threaten native ecosystems by taking over native flora and cause soil erosion.

Parks and Reserves Officer and WCG group member Briana Pringle says they are thrilled with the grant and can now focus on several special areas within Queenstown to really make a difference.

Supporting Commonwealth Games athletes



Thanks to Lotto players, Kiwi athletes competing on the world stage at the Commonwealth Games had world class facilities to train at, including the AUT Millennium Institute in Auckland and the Avantidrome in Cambridge.

The AUT Millennium Institute is New Zealand's leading sports research, coaching and management institute. It was the training facility of choice for gold medallists Valerie Adams (shot-put) and Lauren Boyle (400m freestyle), silver medallist Stanislav Chalaev (weightlifting) and bronze medallist Tracey Lambrechts (weightlifting), as well as our competitive rugby sevens, netball and hockey teams.

The Avantidrome in Cambridge helped give New Zealand cyclists a competitive edge to dominate in the cycling events, and saw cycling collect 15 of the New Zealand Team's 45 medals at the Games. The Avantidrome provided the training ground for our gold medal winning sprint team of Ethan Mitchell, Sam Webster and Eddie Dawkins, who blitzed England in the final and set a Commonwealth Games record!

Lotto funding, through the NZ Lottery Grants Board, was a crucial source of funding for both of these projects – and every year helps to keep Kiwi sport world class.

Community to benefit from national aquatic centre

Thanks to Lotto players, the Sir Owen G. Glenn National Aquatic Centre at AUT Millennium is closer to completion.

Through the NZ Lottery Grants Board, over \$4 million in lottery funding has been awarded to developing the centre.

AUT Millennium Chief Executive Mike Stanley says the centre will have a huge impact on the local community.

"This National Aquatic Centre is for all New Zealanders," said Mike Stanley.

The Centre will be used by Kiwi swimmers at all levels - from those just starting out to those at the elite level. Services at the pool will include learn-to-swim and water safety classes, aquatic sports and it



will serve as a centre of excellence for New Zealand athletes.

The centre will host a 50m Olympic pool, a 25m warm-up pool and will be able to cater for up to 1,800 spectators. It is scheduled to be completed by mid-2015.



Sport Maker of the Year 2014

Exceptional sports volunteer, part-time teacher and mum of three Melanie Morris from Blenheim was recognised as the Lotto New Zealand and Sport New Zealand "Sport Maker of the Year 2014".

The Sport Maker of the Year award shows appreciation for volunteers who go the extra mile to make sport happen in Kiwi communities.

Mel was recognised for her contribution to rugby, volleyball, water polo, basketball and softball over the past nine years. She was also acknowledged as the 2014 Marlborough Volunteer of the Year for her dedication to sport volunteering.

"Volunteers are the lifeblood of sport and literally make sport happen in our communities, with over 750,000 wonderful people giving 50 million hours of their time annually to keep our world class sport system humming," said Peter Miskimmin - Chief Executive, Sport Maker New Zealand.

As part of the Thank a Sport Maker programme, Lotto New Zealand and Sport NZ have teamed up to distribute hundreds of thousands of dollars of sports gear to volunteers involved in all sports across New Zealand, through the website lottovolunteers.co.nz and through Regional Sports Trusts. Together we're supporting and celebrating grassroots sports volunteers - the 'Sport Makers' who help make sport happen in Kiwi communities.

Organisational health and capability

Lotto New Zealand is committed to being a good employer and providing equal employment opportunities. We encourage a culture of high performance based around shared values.

Lotto New Zealand's employment policy outlines our commitment to equal opportunity in all of our procedures, including recruitment, selection and appointment practices, training, career and performance management, conditions of employment and the work environment. Some elements of our employment policy are being reviewed, with the intention of integrating feedback from an internal brand committee made up of staff from across the organisation.

Ensuring our staff are engaged with our business and our culture is key to delivering our future strategic initiatives. The values of leadership, passion, play and giving drive our behaviour and help us to develop an open and positive culture.

Lotto New Zealand's activities against the seven key elements of being a 'good employer', as defined by the Human Rights Commission, are summarised below:

Leadership, accountability and culture

- Our management staff have the opportunity to engage in specific skills training, such as coaching, talent management and succession planning, helping others to grow and developing constructive behaviour
- Our performance management framework is designed to foster a high performance culture that directly aligns to our strategic initiatives
- An annual engagement survey is conducted to gather organisational-wide feedback from staff
- An annual staff seminar shares the overall business strategy with all staff.

Recruitment, induction and selection

- Lotto New Zealand has rigorous recruitment and selection processes
- Internal applications are encouraged for all job vacancies
- All new staff are involved in an induction programme, which provides useful information about Lotto New Zealand and helps staff get settled in.

Employee development, promotion and exit

- Our leadership development programme aims to develop strong leaders within our business and give them opportunities to progress their careers. Each year, a new round of staff is selected to join the programme
- All staff take part in an annual performance review cycle, providing opportunities for feedback and specific work-related appraisals
- All staff are encouraged and supported to undertake appropriate training and professional development
- The development planning process puts specific focus on workplace development and opportunities to grow within Lotto New Zealand, for all staff
- All staff are given the opportunity to complete an exit interview.

Flexibility and work design

- Lotto New Zealand enables flexible working hours for staff, where possible.
- Lotto New Zealand offers secondments to staff wanting to take on new challenges and trial working in different areas of the business.

Remuneration, recognition and conditions

- Salaries are benchmarked against comparable roles externally
- An internal brand committee of staff from across the organisation has been established to support and reinforce staff engagement. Initiatives include a monthly award for high performing staff nominated from across the business, and the ability to provide feedback on a range of human resource initiatives including policies and procedures for employment, health and safety, wellness and code of conduct
- All staff are entitled to an annual wellness investment that can be used for physical or health-related activities
- Our volunteer day programme enables all staff to use their skills to help a charitable or community organisation.

Harassment and bullying prevention

- Lotto New Zealand has zero tolerance for harassment and bullying
- All staff are required to adhere to the code of conduct, which sets out Lotto New Zealand's policies.

Safe and healthy environment

- An internal health and safety committee monitors and resolves potential issues and health risks
- Workstation assessments are available to all staff
- An external employee assistance programme provides independent and private counselling services, when required.

Workplace profile

As at 30 June 2014

	Number	Percentage
Staff numbers FTE	120.5	
Headcount	124	
Gender		
Women	69	56%
Men	55	44%
Senior management (Chief Executive and direct reports)		
Women	4	50%
Men	4	50%
Management (of functional teams, more than five reports)		
Women	4	40%
Men	6	60%
Age		
20 - 29	26	21%
30 - 39	54	44%
40 - 49	27	22%
50 - 59	14	11%
60 and over	3	2%
Total	124	100%
Ethnicity distribution		
Asian	14	11%
European	17	14%
European/New Zealander	74	60%
Indian	10	8%
Maori	3	2%
Pacific	5	4%
Other	1	1%
Total	124	100%

*We also collect disability data.

Success in meeting key strategic objectives

Over the year, our activity was focused on five key business strategies with the goal of being a world leading lottery for the maximum benefit of New Zealand communities.

Strengthen our product portfolio

- We launched a new Powerball 'High Five' campaign centred on the premise that winning feels like high-fiving the world. Powerball offers life-changing amounts of prize money, therefore the new campaign is intended to be positive and upbeat and tell an epic tale of excitement and celebration
- Our Instant Kiwi 'hero' tickets performed well throughout the year, with the \$5 Texas Hold'Em Wild West, \$5 Deal or No Deal and \$5 Lucky Lanterns tickets all achieving strong sales results
- Our daily game, Bullseye, reached a Must Be Won draw on four occasions during the year, one of which led to the single highest draw sales for the game to date.

Increase convenience of purchase

- Our retail expansion programme has made good progress and there were 1,317 Lotto stores across the country as at 30 June 2014
- We worked with Countdown to launch in-lane sales of a limited range of Lotto products in 103 Countdown stores around the country
- We launched a subscriptions feature on our online playing channel MyLotto.co.nz, enabling MyLotto customers to subscribe to a weekly purchase of Lotto and Big Wednesday tickets for a period of 3, 6 or 12 months
- We launched a smartphone application that gives customers the ability to check the outcome of a ticket purchased in-store directly on their mobile device
- With an increasing number of customers using mobile devices, we launched a purpose-built mobile version of MyLotto's registration process, providing a user-friendly and intuitive experience for customers to register using a smartphone.

Be relevant and local

- We created a new retail reward and recognition programme called WinWin to motivate and reward our top retailers
- We conducted a number of customer feedback trials via text messaging, online responses and QR codes. The trials received a high response rate and these new real-time feedback channels are being incorporated into our retailer reward and recognition programme
- We expanded our MyLotto email service to include 'Welcome' emails to educate new players about our games and a service that enables non-registered players to keep up-to-date with jackpot information.

Connect with New Zealand

- The continuation of our 'Thank a Sport Maker' campaign, in conjunction with Sport New Zealand, provides a platform to recognise and reward volunteers within the sporting sector. Through Thank a Sport Maker, New Zealanders can thank everyday sports volunteers for their hard work and nominate them to win sports merchandise
- We invited our retailers to attend 'grants tours' in Christchurch, Wellington and Auckland to experience first hand the positive impact on the community from lottery funding by visiting lottery grant recipients
- We conducted two 'text to win' promotions, providing customers watching the live Lotto draw with another opportunity to win
- We sponsored the Winter Games in Queenstown and partnered with ATEED (Auckland Tourism Events and Economic Development) and the Asia New Zealand Foundation to sponsor the Auckland Diwali Festival of Lights and the Auckland Lantern Festival
- Fifty-two different lottery grant recipients were featured in the weekly Winning Wheel video segments that were screened on the live Lotto draw on TV each Saturday night and made available on our website.

Minimise harm

- Our responsible gaming programme was internationally recognised and certified to Level 3 (out of four possible levels) by the World Lottery Association under its Responsible Gaming Framework
- We worked with the Problem Gambling Foundation to create a comprehensive training and support programme for our retailers. This includes a problem gambling training video, which is a feature of all training sessions with Lotto operators and managers, and a problem gambling information envelope. The envelope provides an additional resource for retailers and is a discreet method of providing information about problem gambling signs and treatment service providers to customers
- Counsellors with the Problem Gambling Foundation provided bespoke training for our sales teams that focused on better understanding problem gambling and providing support to retailers and customers.

Statement of service performance

	Actual 2013/14	Target 2013/14	Actual 2012/13
Strengthen product portfolio			
Lotto/Powerball/Strike			
Sales (\$m)	\$631.5	\$609.2	\$562.9
Gross margin (\$m)	\$172.5	\$155.1	\$137.8
Big Wednesday			
Sales (\$m)	\$159.6 (1)	\$181.1	\$191.4
Gross margin (\$m)	\$53.1	\$55.7	\$65.1
Instant Kiwi			
Sales (\$m)	\$150.9 (2)	\$159.5	\$146.1
Gross margin (\$m)	\$22.4	\$22.7	\$21.2
Other games (3)			
Sales (\$m)	\$46.8	\$50.2	\$46.3
Gross margin (\$m)	\$11.4	\$12.2	\$12.2
Marketing costs as % of revenue	2.2%	2.3%	2.5%
Complaints upheld by the Advertising Standards Authority	Nil	Nil	1
Convenience of purchase			
Retail channel revenue (\$m)	914.8	928.0	888.1
Average weekly sales per store	\$14,001	\$13,935	\$14,480
Number of stores at end of year	1,317	1,340	1,227
Capita per site (4)	3,394	3,316	3,595
Number of Auckland stores at end of year	440	440	405
Auckland capita per site	3,476	3,427	3,720
Highest zone capita per site	5,059	5,000	5,200
% penetration in supermarkets (5)	78.2%	76.0%	73.9%
Retailer satisfaction rating of Lotto New Zealand (6)	84%	80%	84%
Average mystery shop score (7)	82%	90%	88%
Complaints received regarding retailers (8)	102	<100	61
Online channel revenue (\$m)	73.9	72.0	58.7
Online revenue as a % of total sales (9)	7.5%	7.2%	6.2%
Average weekly visits to the website	470,034	420,000	386,000
% weekly visits via smart mobile devices (10)	39.6%	35.0%	27.7%
Website complaints per 100,000 visits (11)	1.96	2.35	1.78
Relevant and local			
Total registered players	323,885	300,000	264,600
% of players who purchased in the last month (12)	29.1%	35.0%	29.1%
Connecting with New Zealand			
Neutral-positive media coverage as % of total	98%	95%	94%
Unprompted awareness of organisations receiving lottery funding	22% (13)	35%	28%
Minimising harm			
Citations per 10,000 players (14)	1.3	<1.5	1.5
Count of retailers convicted of selling Instant Kiwi to people under 18 years	Nil	Nil	Nil

Statement of service performance - continued

	Actual 2013/14	Target 2013/14	Actual 2012/13
Technology and operations			
% televised draws held on time	100%	100%	100%
Compliance with all provisions of the Gambling, Fair Trading, Commerce and Consumer Guarantees Acts	Not achieved (15)	Full	Not achieved
Central system downtime	0 hrs	<1.25 hrs	0 hrs
Gaming network downtime	0 hrs	<1.25 hrs	0 hrs
Interactive system downtime	0 hrs	<1.25 hrs	0 hrs
Backup system tests	2	1	1
% of calls answered in 20 seconds	90.8%	80%	90.9%
% of calls abandoned	3.8%	5%	5.9%
% of emails responded to in three working hours	93%	85%	100%
% of retailer terminal issues resolved to SLA (16)	99.0%	99%	99.4%
Our brand and culture			
% staff turnover (17)	17%	<17%	21%
% of staff with documented and assessed performance plans	95%	>95%	100%
Risk management and assurance (18)			
Up-to-date business continuity plans in place for all critical business processes (19)	93%	100%	Not reported
Security breaches	0%	0	Not reported
Privacy breaches	0%	0	Not reported
Risk reviews completed across all business units and reviewed by executive	100%	100%	Not reported

1 Sales for Big Wednesday in 2013/14 continued to decline compared to sales at previous jackpot levels. A large contributing factor to this was the competing offer of the Powerball offering, which experienced higher than expected jackpot levels in 2013/14. However, we have generally seen lower levels of sales for Big Wednesday at like jackpot levels in 2013/14, irrespective of Powerball jackpot levels.

2 Instant Kiwi sales in 2013/14 were slightly below budget but ahead of the previous year's performance by 3.3%. Instant Kiwi remains a key opportunity for growth in 2014/15 and forms part of our strategic plan for targeted growth.

3 Other games include actuals for Keno and Bullseye. The launch of a third game, originally scheduled to take place in 2013/14, was deferred until the second quarter of 2014/15.

4 Total population figures are used for international benchmarking (not 18+ population). Source: Statistics New Zealand latest population estimates.

5 Supermarkets include Progressive and Foodstuffs outlets (Countdown, SuperValue, Fresh Choice, New World and Pak N Save).

6 Based on the retailer survey conducted by The Research Agency.

7 The mystery shop programme was refreshed during 2013/14 and includes changes such as not advising retailers in advance when the three-week window of mystery shopping would take place, varying the product purchase during the mystery shop, and including Instant Kiwi age verification on a much larger sample of stores.

8 Service standards with regards to customer complaints have been targeted at <100 since 2012, when this measure was introduced. Since then the number of Lotto retail outlets has increased by 25%, however this target service standard has not been amended.

9 Total sales includes Instant Kiwi, which is not sold online.

10 A smart mobile device is any portable device that can be used to browse the internet via a mobile connection, such as WiFi, 3G and 4G.

11 Excludes complaints against the mobile site due to reduced functionality.

12 Average for the last 12 months used to calculate this measure.

13 The timing of the survey in January 2014 may have impacted awareness levels. January is a notoriously quiet time for traditional media, in addition there had not been any major prize winners for four months. Conversely, the initial survey in June 2012 was conducted shortly after a \$26 million Powerball winner went public. It's possible that diminished media coverage for Lotto in general led to a reduced awareness of Lotto's community involvement.

14 Unique players are the average number of New Zealanders aged 18 and above who state they have purchased one or more Lotto New Zealand products in the last year. Source: The Research Agency.

15 On 26 June 2014, for a period of less than two hours, a non-winning ticket message was provided to all users of the Lotto NZ app. Lotto New Zealand communicated with all winning ticket-holders affected by the incorrect message via the app. Following this, 18 winning tickets with a total value of \$75 have not yet been validated.

16 "Terminal issues" covers terminals, printers, scanners and readers. Service Level Agreement (SLA) varies by zone.

17 Excludes fixed-term contracts, redundancies and terminations within 90 days from employment commencement.

18 Risk management and assurance KPIs were new for the 2014-2016 Statement of Intent and therefore not reported for the 2012/13 financial year.

19 Work in 2014/15 is being done to address the areas of distribution and call centre that did not achieve a 100% rating.

Financial statements

Statement of Responsibility

For the year ended 30 June 2014

The New Zealand Lotteries Commission's (Lotto New Zealand) Annual Report is prepared according to the provisions of the Crown Entities 2004 and the Gambling Act 2003.

The Board of Lotto New Zealand is responsible for the preparation of its annual financial statements and statement of service performance, and for the judgements used in their preparation.

Lotto New Zealand's management has maintained a system of internal control that has been designed to provide reasonable assurance about the integrity and reliability of the financial reports.

In the opinion of the Lotto New Zealand Board, the annual financial statements and statement of financial performance fairly reflect the financial position and operations of Lotto New Zealand.

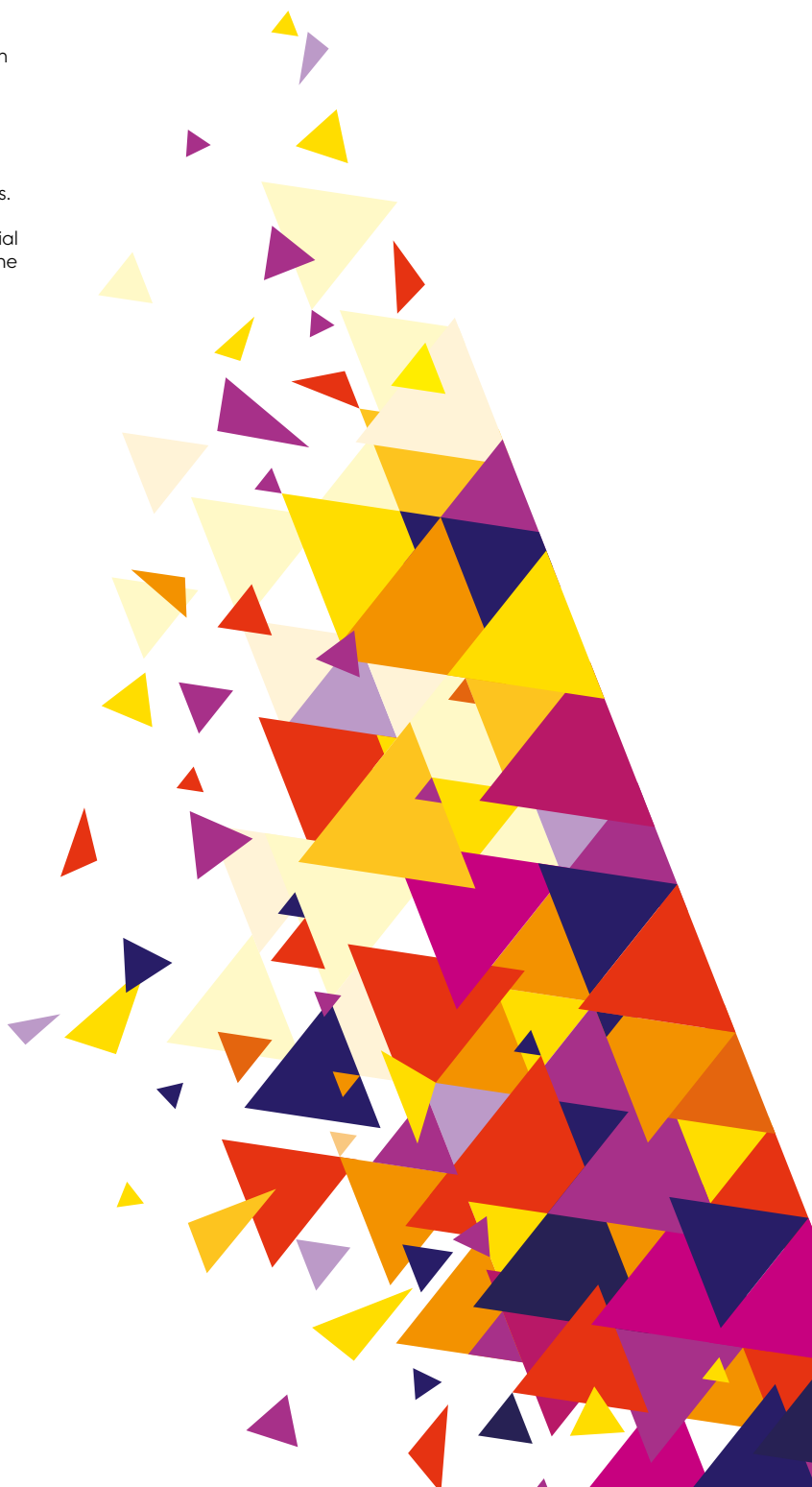
Judy Kirk
Chair

5 September 2014



Richard Janes
Deputy Chair

5 September 2014



Independent auditor's report

To the readers of New Zealand Lotteries Commission's financial statements and non financial performance information for the year ended 30 June 2014

The Auditor-General is the auditor of New Zealand Lotteries Commission (the Commission). The Auditor-General has appointed me, Kelly Rushton, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and non-financial performance information of the Commission on her behalf.

We have audited:

- the financial statements of the Commission on pages 20 to 40, that comprise the statement of financial position as at 30 June 2014, the statement of comprehensive income, statement of movements in equity and statement of cash flows for the year ended on that date and notes to the financial statements that include accounting policies and other explanatory information; and
- the non-financial performance information of the Commission that comprises the statement of service performance and the report about impacts on pages 16 and 17.

Opinion

In our opinion:

- the financial statements of the Commission on pages 20 to 40:
 - comply with generally accepted accounting practice in New Zealand; and fairly reflect the Commission's:
 - financial position as at 30 June 2014; and
 - financial performance and cash flows for the year ended on that date.
- the non-financial performance information of the Commission on pages 16 and 17:
 - complies with generally accepted accounting practice in New Zealand; and
 - fairly reflects the Commission's service performance and outcomes for the year ended 30 June 2014, including for each class of outputs:
 - its service performance compared with forecasts in the statement of forecast service performance at the start of the financial year; and
 - its actual revenue and output expenses compared with the forecasts in the statement of forecast service performance at the start of the financial year.

Our audit was completed on 5 September 2014. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board and our responsibilities, and we explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements and non-financial performance information are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements and non-financial performance information. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and non-financial performance information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and non-financial performance information, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the Commission's financial statements and

non-financial performance information that fairly reflect the matters to which they relate. We consider internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board;
- the appropriateness of the reported non-financial performance information within the Commission's framework for reporting performance;
- the adequacy of all disclosures in the financial statements and non-financial performance information; and
- the overall presentation of the financial statements and non-financial performance information.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and non-financial performance information. Also we did not evaluate the security and controls over the electronic publication of the financial statements and non-financial performance information.

We have obtained all the information and explanations we have required and we believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Board

The Board is responsible for preparing financial statements and non-financial performance information that:

- comply with generally accepted accounting practice in New Zealand;
- fairly reflect the Commission's financial position, financial performance and cash flows; and
- fairly reflect its service performance and impacts.

The Board is also responsible for such internal control as is determined necessary to enable the preparation of financial statements and non-financial performance information that are free from material misstatement, whether due to fraud or error. The Board is also responsible for the publication of the financial statements and non-financial performance information, whether in printed or electronic form.

The Board's responsibilities arise from the Crown Entities Act 2004 and the Gambling Act 2003.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and non-financial performance information and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and the Crown Entities Act 2004.

Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

In addition to the audit, Audit New Zealand acts as scrutineer for all the Lotto products, Big Wednesday, Bullseye, Daily Keno games and Instant Kiwi products, which are compatible with those independence requirements.

Other than the audit and these assignments, we have no relationship with or interests in the Commission.

Kelly Rushton
Audit New Zealand
On behalf of the Auditor General
Wellington, New Zealand
5 September 2014



Statement of comprehensive income

For the year ended 30 June 2014

	Note	30/06/14 Actual \$000	30/06/14 Budget \$000	30/06/13 Actual \$000
Revenues				
Revenues	2	942,006	950,668	905,237
Cost of sales	3	655,081	669,536	641,734
Gross profit		286,925	281,132	263,503
Expenses				
Promotion and retail support		25,761	26,924	27,411
Property, plant and equipment depreciation	4	4,255	4,848	4,723
Computer software amortisation		1,225	1,488	919
Gaming system expenses excluding depreciation		5,625	4,978	5,732
Employee remuneration		13,101	13,057	11,746
Other	5	10,801	9,465	11,179
Total expenses		60,768	60,760	61,710
Profit		226,157	220,372	201,793
Distribution of profit to the NZ Lottery Grants Board		226,157	220,372	201,793
Special distribution to the NZ Lottery Grants Board		5,000	-	-
Profit/(loss) after distributions to the NZ Lottery Grants Board		(5,000)	-	-
Other comprehensive income - net change in fair value of cash flow hedges	27	(1,211)	139	362
Total comprehensive income		(6,211)	139	362

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

Statement of movements in equity

For the year ended 30 June 2014

	Note	30/06/14 Actual \$000	30/06/14 Budget \$000	30/06/13 Actual \$000
Equity at beginning of the year		28,475	27,346	28,113
Comprehensive income				
Profit after distributions to the NZ Lottery Grants Board		(5,000)	-	-
Other comprehensive income				
Net change in fair value of cash flow hedges	27	(1,211)	139	362
Equity at the end of the year	18	22,264	27,485	28,475

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

Statement of financial position

As at 30 June 2014

	Note	30/06/14 Actual \$000	30/06/14 Budget \$000	30/06/13 Actual \$000
Assets				
Current assets				
Cash and cash equivalents	6,8	70,774	45,349	46,934
Term deposits	7,8	28,167	54,760	62,427
Debtors and other receivables	9	5,271	9,500	10,099
Prepayments		7,313	6,800	6,771
Inventories	10	4,155	2,700	3,519
Short-term financial derivatives	27	-	-	18
Total current assets		115,680	119,109	129,768
Non-current assets				
Property, plant and equipment	11	15,123	18,040	19,775
Computer software	12	5,012	5,844	4,389
Long-term financial derivatives	27	-	-	344
Total non-current assets		20,135	23,884	24,508
Total assets		135,815	142,993	154,276
Liabilities				
Current liabilities				
Creditors and other payables	13	70,214	89,258	78,656
Annuity prize liabilities	14	147	-	247
Employee entitlements	16	629	800	903
Provisions	17	549	291	2,653
Short-term financial derivatives	27	849	628	-
Lease incentive	11	176	-	-
Total current liabilities		72,564	90,977	82,459
Long-term liabilities				
Annuity prize liabilities	14	45	-	180
Employee entitlements	16	-	50	-
Lease incentive	11	1,941	-	-
Total long-term liabilities		1,986	50	180
Prize reserve account	15	39,001	24,481	43,162
Total liabilities		113,551	115,508	125,801
Equity				
Retained earnings	18	23,113	27,749	27,749
Asset revaluation reserve	18	-	364	364
Cash flow hedge reserve	27	(849)	(628)	362
Total equity		22,264	27,485	28,475
Total liabilities and equity		135,815	142,993	154,276

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

Judy Kirk
Chair

5 September 2014


Richard Janes
Deputy Chair

5 September 2014



Statement of cash flows

For the year ended 30 June 2014

	Note	30/06/14 Actual \$000	30/06/14 Budget \$000	30/06/13 Actual \$000
Cash flows from operating activities				
Sales		932,791	928,500	891,251
Net GST (paid)/received		264	-	(221)
Other receipts		11,345	5,435	10,667
Prize payments		(531,948)	(544,799)	(523,955)
Lottery duty		(55,542)	(54,395)	(51,493)
Retailers' commission		(64,878)	(64,695)	(62,850)
Employee costs		(13,135)	(12,900)	(11,981)
Other payments		(56,889)	(52,717)	(54,289)
Net cash flow from operating activities	19	222,008	204,429	197,129
Cash flows from investing activities				
Net reduction in term deposits		34,260	15,000	17,380
Sale of property, plant and equipment		9,129	100	50
Interest received		5,485	5,600	5,598
Purchase of property, plant and equipment		(6,556)	(5,144)	(7,854)
Purchase of computer software		(1,858)	(3,290)	(2,234)
Net cash flow from investing activities		40,460	12,266	12,940
Cash flows from financing activities				
Discharge of annuity prize liabilities		(335)	(180)	(337)
Payments to the NZ Lottery Grants Board		(238,293)	(224,690)	(217,727)
Net cash flow from financing activities		(238,628)	(224,870)	(218,064)
Net (decrease)/increase in cash balances		23,840	(8,175)	(7,995)
Opening cash and cash equivalents balance		46,934	53,524	54,929
Closing cash and cash equivalents balance	6	70,774	45,349	46,934

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

The net term deposits component of investing activities reflects the term deposits placed less the amounts that matured during the year.

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

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

Statement of commitments

As at 30 June 2014

	30/06/14 \$000	30/06/13 \$000
Capital commitments approved and contracted		
Property, plant and equipment	8,267	8,560
Total capital commitments	8,267	8,560
Non-cancellable operating lease commitments payable		
Not later than one year	880	365
Later than one year and not later than two years	902	45
Later than two years and not later than five years	2,478	89
Later than five years	3,347	-
Total non-cancellable operating lease commitments	7,607	499
Other non-cancellable contracts		
Not later than one year	11,629	14,052
Later than one year and not later than two years	1,594	3,529
Later than two years and not later than five years	3,156	2,021
Later than five years	953	3,161
Total other non-cancellable contracts	17,333	22,763
Total commitments	33,207	31,822

Lotto New Zealand has non-cancellable operating leases for its offices. These lease operating commitments are included in the table above. Further details are as follows:

- Auckland office - the lease on Khyber Pass Road, Auckland runs until September 2014. The annual rental is \$699,240.
- On 21 July 2014, Lotto New Zealand moved to new Auckland premises. The lease on these premises will run until September 2023 with a renewal option for two further terms of six years each. The annual rental on these premises is \$1,020,945 (less lease incentive of \$235,214 per annum over nine years) with a rent review every three years.
- Christchurch office - the lease runs until June 2017 with a renewal option of four years. The annual rental is \$45,212.
- Wellington office - the lease expired on Cambridge Terrace, Wellington on 30 June 2014 and a lease at new premises was entered into on 1 June 2014 for a three-year term. The annual rental is \$69,600.

There are no restrictions placed on Lotto New Zealand by any of its leasing arrangements.

Other non-cancellable contracts primarily relate to the retailer network, gaming system maintenance, media and other contracts for service.

Statement of contingent liabilities and contingent assets

As at 30 June 2014

There were no contingent liabilities or contingent assets at either 30 June 2014 or 30 June 2013.

Notes to the financial statements

1. Statement of accounting policies for the year ended 30 June 2014

Reporting entity

The New Zealand Lotteries Commission ('Lotto New Zealand') is a Crown entity as defined by the Crown Entities Act 2004 and is domiciled in New Zealand. Lotto New Zealand's ultimate parent is the New Zealand Crown.

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

The financial statements for Lotto New Zealand are for the year ended 30 June 2014 and were approved by the Board on 26 August 2014.

Basis of preparation

Accounting compliance

These financial statements have been prepared in accordance with New Zealand generally accepted accounting practice (GAAP). They comply with all New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable financial reporting standards.

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.

Budget figures

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

Changes in accounting policies

There have been no changes in accounting policies.

Standards, amendments and interpretations issued that are not yet effective and have not been adopted early

The Minister of Commerce has approved a new accounting standards framework (incorporating a Tier Strategy) which has been developed by the External Reporting Board (XRB). Under this Accounting Standards Framework, Lotto New Zealand is classified as a Tier 1 reporting entity and it will be required to apply full Public Benefit Entity Accounting Standards (PAS). The effective date for the new standards for public sector entities is for reporting periods beginning on or after 1 July 2014. This means Lotto New Zealand will transition to the new standards in preparing its 30 June 2015 financial statements.

Due to the change in the accounting standards framework for public benefit entities, it is expected that all new NZ IFRS and amendments to existing NZ IFRS will not be applicable to public benefit entities. Therefore the XRB has effectively frozen the financial reporting requirements for public benefit entities up until the new accounting standard framework is effective. Accordingly no disclosure has been made about new or amended NZ IFRS that exclude public benefit entities from their scope.

Lotto New Zealand anticipates that these standards will have no material impact on the financial statements in the period of initial application. It is likely that the changes arising from this framework will affect the disclosures required in the financial statements. However, it is not practicable to provide a reasonable estimate until a detailed review has been completed.

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 surplus or deficit 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 profit or loss.

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

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

Obligations for contributions to the defined contribution retirement plan are recognised in the surplus or deficit as they fall due.

Termination benefits are recognised in the surplus or deficit 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 facilitate voluntary redundancy.

Equity

Equity is measured as the difference between total assets and total liabilities. Equity is disaggregated and classified into retained earnings, property revaluation reserve and cash flow hedge reserve. The property revaluation reserve relates to the revaluation of property, plant and equipment to fair value. The cash flow hedge reserve relates to the change in the fair value of foreign exchange contracts that Lotto New Zealand holds.

Financial instruments

Cash, 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 Lotto New Zealand's 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 relatively minor.

Cash and bank balance figures include any cash overdrafts to reflect a total cash position.

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.

Derivative financial instruments and hedging

Lotto New Zealand uses derivative financial instruments in the form of forward foreign currency contracts to hedge risks associated with foreign exchange currency fluctuation. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The measurement of the fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

Cash flow hedge

The effective portion of changes in fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. Gains or losses that are recognised in other comprehensive income are transferred to profit or loss in the same year in which the hedged firm commitment affects the net profit or loss, for example when the future settlement occurs.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument in other comprehensive income is retained in the cash flow reserve until the forecast transaction occurs. If the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in cash flow reserve is transferred to profit or loss.

Annuity prize liabilities

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

Foreign currency transactions

Foreign currency transactions are translated into New Zealand dollars using the exchange rates prevailing at the dates of the transactions.

Goods and Services Tax (GST)

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

Inventories

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

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

Interest

Interest income is recognised using the effective interest rate method.

Interest on cash, 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, cash equivalents and term deposits is included in profit or loss.

Judgements and estimations

In preparing these financial statements Lotto New Zealand 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 Lotto New Zealand's games. Lotto New Zealand have classified this account as a liability due to the Rules requiring the balance to be paid to winners in the future. Transfers into this account comprise amounts set aside from the prize pools for games, together with prizes unclaimed after 12 months from the date of the relevant draw or game closure and interest earned on investments representing prize liabilities. Funds accumulated in this account are used exclusively for the purposes of augmenting the prize pools for various draws and games. The balance in the account fluctuates as a result of a number of factors, the most significant of which is the frequency of Lotto Powerball and Big Wednesday Division One wins. Long jackpot runs typically result in an increase in the balance. Conversely, wins early in the jackpot cycle cause a decrease in the balance in the account.

Property, plant and equipment

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

Revaluations

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

The carrying values of revalued items are reviewed at each financial year end to ensure that those values are not materially different to fair value. Additions between revaluations are recorded at cost.

Accounting for revaluations

Land and building revaluation movements are accounted for on a class-of-asset basis.

The net revaluation results are credited or debited to other

comprehensive income and is accumulated to an asset revaluation reserve in equity for that class of asset. Where this would result in a debit balance in the asset revaluation reserve, this balance is not recognised in other comprehensive income but is recognised in profit or loss. Any subsequent gain on revaluation that reverses a previous decrease in value recognised in profit or loss will be recognised first in profit or loss up to the amount previously expensed and then recognised in other comprehensive income.

Additions

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

Disposals

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset; gains and losses on disposals are included in the surplus or deficit.

Subsequent costs

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

Depreciation

Depreciation of property, plant and equipment, other than freehold land which is not depreciated, is calculated on a straight line basis so as to allocate the cost of the assets, or the revalued amount, over the shorter of the economic life or the relevant lease periods as follows:

Gaming computers, associated equipment and integral software	4 - 7 years
Other computer hardware	3 years
Leasehold improvements	1 - 9 years
Draw equipment	5 years
Furniture and fittings	10 years
Motor vehicles	4 years
Office equipment	5 years
Building	10 - 50 years

The residual value and useful life of an asset is reviewed and adjusted, if applicable, at each financial year end. If an adjustment to the useful life of an asset is made then the remaining book value at that point is depreciated on a straight line basis over the adjusted remaining life of the asset.

Provisions

A provision is recognised for future expenditure of uncertain amount or timing when there is a present obligation (either legal or constructive) as a result of a past event, it is probable that expenditure will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as an interest expense and is included in "finance costs".

Restructuring

A provision for restructuring is recognised when an approved, detailed formal plan for the restructuring has either been announced publicly to those affected or for which implementation has already commenced.

Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, any impairment losses on the assets associated with that contract are recognised.

Revenue and expense recognition

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

Taxation

Lotto New Zealand is exempt from income tax by virtue of Section 264 of the Gambling Act 2003.

The following taxes are paid by Lotto New Zealand:

- Lottery duty of 5.5 cents in the dollar on GST-inclusive sales
- Problem gambling levy on GST-inclusive sales less prizes payable
- Goods and services tax charged on lottery sales less related prizes payable
- Fringe benefit tax
- Non-resident withholding tax.

2. Revenues

	30/06/14 Actual \$000	30/06/14 Budget \$000	30/06/13 Actual \$000
Sales			
Lotto, Strike and Powerball	631,472	609,200	562,934
Instant Kiwi	150,877	159,500	146,094
Big Wednesday	159,617	181,100	191,414
Keno	29,465	27,100	28,981
Bullseye	17,335	16,800	17,336
Play 3	-	6,300	-
Sales including GST	988,766	1,000,000	946,759
GST	59,996	60,432	55,904
Sales excluding GST	928,770	939,568	890,855
Other revenue			
Telecommunications and terminal maintenance cost recovery	5,775	5,434	5,620
Retailers' establishment fees	875	900	951
Interest	2,631	1,543	2,544
Sundry	3,955	3,223	5,267
	13,236	11,100	14,382
Total revenues	942,006	950,668	905,237

3. Cost of sales

	30/06/14 Actual \$000	30/06/14 Budget \$000	30/06/13 Actual \$000
Lottery duty	54,382	55,000	52,072
Problem Gambling Levy	1,337	1,489	1,414
Retailers' commission and MyLotto transaction fees	64,984	67,100	62,874
Prizes paid and payable	486,411	495,902	475,000
Prize reserve account	39,295	40,783	39,935
Ticket costs	4,778	6,062	5,445
Cost of goods sold to retailers	3,894	3,200	4,994
	655,081	669,536	641,734

4. Property, plant and equipment depreciation

	30/06/14 Actual \$000	30/06/14 Budget \$000	30/06/13 Actual \$000
The total depreciation charge for each class of assets is as follows:			
On cost			
Gaming computers and associated equipment	3,243	3,494	3,489
Other computer hardware	587	511	379
Leasehold improvements	3	4	4
Furniture and fittings	100	97	109
Motor vehicles	219	202	197
Office equipment	14	16	17
	4,166	4,324	4,195
On cost or valuation			
Building (Khyber Pass Road, Auckland)	89	524	528
	4,255	4,848	4,723

5. Other expenses

	30/06/14 Actual \$000	30/06/14 Budget \$000	30/06/13 Actual \$000
Audit fees for conducting the external audit	175	175	169
Audit fees for scrutineering lottery draws	125	180	176
Board members' fees	148	148	148
Interest	16	3	3
Premises costs	1,736	1,252	1,217
IT and telecommunications	3,852	3,632	3,132
Other	4,749	4,075	6,334
	10,801	9,465	11,179

6. Cash and cash equivalents

	30/06/14 \$000	30/06/13 \$000
Cash and bank balance	11,607	4,328
Short-term deposits	59,000	42,500
Accrued interest	167	106
	70,774	46,934

The carrying value of cash at bank and short-term deposits with initial maturities less than three months approximates their fair value.

7. Term deposits

	30/06/14 \$000	30/06/13 \$000
Term deposits	28,000	62,000
Accrued interest	167	427
	28,167	62,427

8. Fair value of investments

	30/06/14 Carrying amount \$000	30/06/14 Fair value \$000	30/06/14 Purchase yield \$000	30/06/13 Carrying amount \$000	30/06/13 Fair value \$000	30/06/13 Purchase yield \$000
The fair value of investments (based on quoted market prices) together with their maturity terms and purchase yields are as follows:						
Maturing within one year	87,334	87,284	4.04%	104,994	105,032	3.77%
	87,334	87,284	4.04%	104,994	105,032	3.77%
Represented in the statement of financial position as:						
Short-term deposits - maturities up to three months from acquisition date	59,167	59,167		42,567	42,567	
Term deposits - maturities of more than three months from acquisition date	28,167	28,117		62,427	62,465	
	87,334	87,284		104,994	105,032	

9. Debtors and other receivables

	30/06/14 \$000	30/06/13 \$000
Due from retailers for current games	4,887	8,925
Trade receivables	384	1,174
	5,271	10,099

Lotto New Zealand's payment terms are that accounts are due on the 20th of the month following invoicing. All receivables not settled on the 20th of the month following invoicing are considered to be past due.

The carrying value of debtors and other receivables approximates their fair value.

There is no impairment of receivables.

	30/06/14 \$000	30/06/13 \$000
Not past due	4,947	9,752
Past due 1-30 days	185	311
Past due 31-60 days	69	25
Past due 61-90 days	58	2
Past due > 91 days	12	9
	5,271	10,099

All receivables greater than 30 days in age are considered to be past due but are deemed recoverable.

10. Inventories

	30/06/14 \$000	30/06/13 \$000
Instant Kiwi ticket stock	2,070	1,471
Other stock	2,085	2,048
	4,155	3,519

No inventories are pledged as security for liabilities.

11. Property, plant and equipment

	30/06/14 \$000	30/06/13 \$000
Land - Khyber Pass Road, Auckland		
Valuation	2,500	2,500
Disposals	(2,500)	-
Carrying amount at end of year	-	2,500
Building - Khyber Pass Road, Auckland		
Cost or valuation	5,379	5,310
Additions	177	69
Disposals	(5,556)	-
Valuation at end of year	-	5,379
Accumulated depreciation at beginning of year	1,035	507
Depreciation for the year	89	528
Disposals	(1,124)	-
Accumulated depreciation at end of year	-	1,035
Carrying amount at end of year	-	4,344
Leasehold improvements		
Cost at beginning of year	999	999
Additions	111	-
Disposals	-	-
Cost at end of year	1,110	999
Accumulated depreciation at beginning of year	999	995
Depreciation for the year	3	4
Accumulated depreciation at end of year	1,002	999
Carrying amount at end of year	108	-
Gaming computer equipment		
Cost at beginning of year	36,376	35,179
Additions	8,759	1,199
Disposals	(800)	(2)
Cost at end of year	44,335	36,376
Accumulated depreciation at beginning of year	30,758	27,270
Depreciation for the year	3,243	3,489
Disposals	(800)	(1)
Accumulated depreciation at end of year	33,201	30,758
Carrying amount at end of year	11,134	5,618

	30/06/14 \$000	30/06/13 \$000
Other computer hardware		
Cost at beginning of year	4,216	3,412
Additions	429	869
Disposals	(51)	(65)
Cost at end of year	4,594	4,216
Accumulated depreciation at beginning of year	3,189	2,875
Depreciation for the year	587	379
Disposals	(51)	(65)
Accumulated depreciation at end of year	3,725	3,189
Carrying amount at end of year	869	1,027
Draw equipment		
Cost at beginning of year	661	661
Additions	-	-
Disposals	(160)	-
Cost at end of year	501	661
Accumulated depreciation at beginning of year	661	661
Depreciation for the year	-	-
Disposals	(160)	-
Accumulated depreciation at end of year	501	661
Carrying amount at end of year	-	-
Furniture and fittings		
Cost at beginning of year	1,212	1,204
Additions	24	17
Disposals	(18)	(8)
Cost at end of year	1,218	1,212
Accumulated depreciation at beginning of year	894	793
Depreciation for the year	100	109
Disposals	(13)	(8)
Accumulated depreciation at end of year	981	894
Carrying amount at end of year	238	319
Motor vehicles		
Cost at beginning of year	907	772
Additions	94	358
Disposals	(154)	(223)
Cost at end of year	847	907
Accumulated depreciation at beginning of year	362	330
Depreciation for the year	219	197
Disposals	(140)	(165)
Accumulated depreciation at end of year	441	362
Carrying amount at end of year	406	545

11. Property, plant and equipment - continued

	30/06/14 \$000	30/06/13 \$000
Office equipment		
Cost at beginning of year	757	730
Additions	36	28
Disposals	(43)	(1)
Cost at end of year	750	757
Accumulated depreciation at beginning of year	709	692
Depreciation for the year	14	17
Disposals	(34)	-
Accumulated depreciation at end of year	689	709
Carrying amount at end of year	61	48
Work in progress		
Cost at beginning of year	5,374	-
Additions	2,307	5,374
Capitalised	(5,374)	-
Carrying amount at end of year	2,307	5,374
Total property, plant and equipment	15,123	19,775

In September 2013, Lotto New Zealand's freehold land and building in Auckland were sold and an agreement was entered into with the new owner to lease the building for 12 months. In a related transaction, a lease was entered into for new premises effective from October 2014. The lease is for a period of nine years with renewal options for two further terms of six years each. In order to facilitate the lease on the new premises, the sale price paid by the purchaser on Lotto New Zealand's property included an incentive. This incentive will be amortised over the nine-year lease period. Lotto New Zealand made the decision to move into the new premise three months early, therefore a sublease was entered into effective July 2014. The incentive, however, relates to the original lease effective October 2014, therefore the current portion reflects the nine months from October 2014.

There are no restrictions over the title of property, plant and equipment, nor is any property, plant and equipment pledged as security for liabilities.

12. Computer software

	30/06/14 \$000	30/06/13 \$000
In use		
Cost at beginning of year	10,184	6,654
Additions	1,180	3,530
Disposals	(101)	-
Cost at end of year	11,263	10,184
Accumulated amortisation at beginning of year	5,916	4,997
Amortisation for the year	1,225	919
Disposals	(101)	-
Accumulated amortisation at end of year	7,040	5,916
Carrying amount at end of year	4,223	4,268
Work in progress		
Cost at beginning of year	121	1,417
Additions	769	121
Capitalised	(101)	(1,417)
Carrying amount at end of year	789	121
Total computer software	5,012	4,389

There are no restrictions over the title of computer software, nor is any computer software pledged as security for liabilities.

13. Creditors and other payables

	30/06/14 \$000	30/06/13 \$000
Moneys received or receivable for games not drawn at balance date	2,923	2,277
Prize liabilities	39,268	39,170
MyLotto player accounts	3,191	2,279
Trade creditors	10,470	10,409
Payable to the NZ Lottery Grants Board	10,757	17,893
Accrued expenses	3,605	6,628
	70,214	78,656

Creditors and other payables are non-interest bearing and are normally settled within two months of becoming due. Accordingly, the carrying value of creditors and other payables approximates their fair value.

Credit facilities

Lotto New Zealand has a bank overdraft facility of \$2 million with Westpac Banking Corporation. The interest rate on the overdraft facility at 30 June 2014, if utilised, was 9.20% per annum (2013 : 8.45%).

14. Annuity prize liabilities

	30/06/14 Amounts payable \$000	30/06/14 Fair value \$000	30/06/13 Amounts payable \$000	30/06/13 Fair value \$000
Short-term liabilities	147	147	247	247
Long-term liabilities	53	45	203	180
	200	192	450	427

The annuity prize liabilities are recognised at fair value as follows:

- the carrying amount of the short-term liabilities approximate their fair value
- the long-term liabilities fair value is the amount payable discounted using the effective interest rate method.

15. Prize reserve account

	30/06/14 \$000	30/06/13 \$000
Opening balance	43,162	49,287
Amounts transferred based on game sales	39,293	39,935
Interest	2,854	3,101
Unclaimed prizes over 12-months old	10,974	10,118
Transfers to prize pools	(57,282)	(59,279)
	39,001	43,162

16. Employee entitlements

	30/06/14 \$000	30/06/13 \$000
Annual leave	629	808
Long-service leave	-	95
	629	903
Current liabilities	629	903
	629	903

The present value of long service leave obligations depends on a number of factors that are determined on an actuarial basis. Two key assumptions used in calculating this liability include the discount rate and the salary inflation factor. Any changes in these assumptions would affect the carrying amount of the liability, but would not be material.

During the year all employees entitled to long service leave were paid out their entitlement on leaving Lotto New Zealand. In 2013, expected future payments were discounted using forward discount rates derived from the yield curve of New Zealand government bonds. The discount rates used had maturities that matched as closely as possible, the estimated future cash outflows. The salary inflation factor was determined after considering historical salary inflation patterns and after obtaining advice from The Treasury. In 2013 a weighted average discount rate of 3.75% and an inflation factor of 3.5% were used.

17. Provision

	30/06/14 \$000	30/06/13 \$000
Provision at the beginning of the year	2,653	2,600
Additional provision made during the period	-	1,200
Charged against the provision	(2,000)	(1,147)
Release of the provision during the year	(104)	-
Provision at end of the year	549	2,653

There are two components to the provision. They relate to costs to retail upgrades and costs associated with relocating Lotto New Zealand's Wellington office to Auckland.

	30/06/14 \$000	30/06/13 \$000
The net movement in provision for retail upgrades is as follows:		
Provision at the beginning of the year	1,462	2,600
Charged against the provision	(913)	(1,138)
Provision at end of the year	549	1,462

These costs relate to the upgrade of lotto furniture within Lotto New Zealand's retail network. The provision represents an estimate of the contributions to be made towards the cost of the upgrade for retailers. These retail outlets currently have furniture that no longer meets Lotto New Zealand's standards. The work commenced in September 2012 and is expected to be completed by September 2015.

	30/06/14 \$000	30/06/13 \$000
The net movement in provision for Wellington Office closure is as follows:		
Provision at the beginning of the year	1,191	-
Additional provision made during the period	-	1,200
Charged against the provision	(1,087)	(9)
Release of provision during the period	(104)	-
Provision at end of the year	-	1,191

Functions carried out in the Wellington office were relocated to Auckland during the year. The main costs associated with this provision relate to redundancy payments to staff and staff relocation costs.

18. Equity

	30/06/14 Actual \$000	30/06/13 Actual \$000
Retained earnings		
Opening balance	27,749	27,749
Transfer from land revaluation on sale of Auckland property	364	-
Deficit for the year	(5,000)	-
Balance at 30 June	23,113	27,749
Land revaluation reserve		
Opening balance	364	364
Transfer to retained earnings on sale of Auckland property	(364)	-
Balance at 30 June	-	364
Cash flow hedge reserve		
Opening balance	362	-
Movement in fair value of cash flow hedges 30 June	(1,211)	362
Balance at 30 June	(849)	362
Total equity	22,264	28,475

Lotto New Zealand's equity comprises accumulated funds and other reserves.

19. Reconciliation of net cash flow from operating activities with net surplus

	30/06/14 \$000	30/06/13 \$000
Profit/(loss) after distribution to the NZ Lottery Grants Board	(5,000)	-
Adjustments for non-cash items:		
Depreciation of property, plant and equipment	4,255	4,724
Amortisation of computer software	1,225	919
Changes in assets and liabilities		
(Increase)/decrease in receivables for current games	4,038	565
(Increase)/decrease in trade receivables	790	(1,120)
(Increase)/decrease in prepayments	(541)	306
(Increase)/decrease in stock	(636)	(1,195)
Increase/(decrease) in moneys received or receivable for games	646	525
Increase/(decrease) in prize liabilities	98	(347)
Increase/(decrease) in trade creditors	(2,050)	2,922
Increase/(decrease) in provisions	(2,104)	53
Increase/(decrease) in employee entitlements	(274)	(235)
Increase/(decrease) in prize reserve account	(4,161)	(6,125)
Investing activity items		
Interest receipts	(5,485)	(5,645)
(Gain)/loss on sale of property, plant and equipment	(50)	(50)
Financing activity items		
Annuity prize liabilities	100	39
NZ Lottery Grants Board payables	231,157	201,793
Net cash inflow from operating activities	222,008	197,129

20. Restrictions on cash and cash equivalents, and term deposits

	30/06/14 \$000	30/06/13 \$000
Payment of prizes	78,456	82,754
MyLotto player funds	3,290	2,971
Total restricted amount	81,746	85,725

21. Related party information

Lotto New Zealand is a wholly-owned entity of the Crown and has entered into a number of transactions with other entities within the Crown on an arms-length basis. No funding has been provided by the Crown to Lotto New Zealand.

Significant transactions with government-related entities

The Gambling Act 2003 requires that Lotto New Zealand is to distribute all profits to the NZ Lottery Grants Board unless the Minister of Internal Affairs consents to a request from the Board for a retention. No such amounts were retained in the year or the previous year. Distribution in respect of the 2013/14 financial year amounted to \$231.2 million (2013: \$201.8 million) of which \$226.2 million was distributed from profit for the year and \$5.0 million by way of a special distribution from the sale of the Auckland building.

Collectively, but not individually, significant transactions with government-related entities

In conducting its activities, Lotto New Zealand is required to pay various taxes and levies (such as GST, FBT, PAYE, ACC levies, Lottery Duty and the Problem Gambling Levy) to the Crown and entities related to the Crown. The payment of these taxes and levies, is based on the standard terms and conditions that apply to those taxes and levies. Lotto New Zealand is exempt from income tax by virtue of Section 264 of the Gambling Act 2003.

Lotto New Zealand also purchases goods and services from entities controlled, significantly influenced or jointly controlled by the Crown. Purchases from these government-related entities for the year ended 30 June 2014 totalled \$6.1 million (2013: \$7.8 million). Key entities include Air New Zealand, New Zealand Customs, New Zealand Post and Television New Zealand.

There were no other related party transactions during the year.

22. Key management personnel compensation

	30/06/14 \$000	30/06/13 \$000
Salaries and other short-term employee benefits	2,395	2,371
Termination benefits	262	-
	2,657	2,371

Key management personnel include all Board members, the Chief Executive and the senior management team. The size of the senior management team at the end of the reporting period was six executives. In the previous year, the senior management team numbered seven. However, during the year, two members of the senior management team left the business. Their remuneration is included above. Additionally, there was one new appointment to the senior management team in March 2014.

23. Employee remuneration

This note sets out the number of employees and former employees who received over \$100,000 in total remuneration during the year. Total remuneration includes the annual cost to Lotto New Zealand of all elements of contracted remuneration packages (salaries together with any benefits including motor vehicles, superannuation scheme contributions made by Lotto New Zealand and fringe benefit tax). The information below reflects the amount actually paid or, in the case of benefits, actually provided during the year.

The remuneration package for the Chief Executive is set in accordance with the terms of the contract of employment, which is negotiated by the Board in consultation with the State Services Commission. The remuneration of other senior executives is set by the Chief Executive in consultation with the Remuneration Committee of the Board. In setting compensation for all executives, market information for similar management positions within the full range of New Zealand businesses is assessed. The information used for this purpose includes benchmark compensation indicators contained in the results of surveys conducted by employment and remuneration specialists.

Total remuneration	Number of employees	
	30/06/14	30/06/13
\$100,000 to \$109,999	8	9
\$110,000 to \$119,999	7	3
\$120,000 to \$129,999	2	4
\$130,000 to \$139,999	2	3
\$140,000 to \$149,999	4	3
\$150,000 to \$159,999	2	-
\$160,000 to \$169,999	1	2
\$170,000 to \$179,999	1	3
\$180,000 to \$189,999	1	2
\$190,000 to \$199,999	1	2
\$230,000 to \$239,999	1	-
\$240,000 to \$249,999	1	-
\$290,000 to \$299,999	-	1
\$300,000 to \$309,999	1	-
\$310,000 to \$319,999	1	-
\$390,000 to \$399,999	-	1
\$400,000 to \$409,999	1	-
\$410,000 to \$419,999	-	1
\$430,000 to \$439,999	1	-

During the year, three people who ceased to be employees received a total of \$301,600 as compensation or other benefits in relation to the cessation of their employment (2013: 12 people, \$282,323). This information is provided pursuant to section 152, subsection 1(d) of the Crown Entities Act 2004.

24. Board members' fees

	30/06/14 \$000	30/06/13 \$000
Miranda Burdon	24	24
Richard Holden	24	24
Richard Janes, Deputy Chair	29	29
Judy Kirk, Chair	47	47
Tony Mossman	24	24
	148	148

There have been no payments made to committee members appointed by the Board who were not Board members during the financial year.

Lotto New Zealand has effected Directors' and Officers' Liability insurance cover during the financial year in respect of the costs of legal representation incurred by Board members and officers in the defence of any civil or criminal proceedings, and settlements by, or judgements including claimant's costs awarded against Board members and officers where no indemnity is provided by Lotto New Zealand.

No Board member received compensation or other benefits in relation to the cessation of their services during the year or the previous year.

25. Categories of financial assets and liabilities

	30/06/14 \$000	30/06/13 \$000
Loans and receivables		
Cash and cash equivalents	70,774	46,934
Term deposits	28,167	62,427
Debtors and other receivables	5,271	10,099
	104,212	119,460
Financial liabilities measured at amortised cost		
Creditors and other payables	70,214	78,656
	70,214	78,656

26. Financial instrument risks

Lotto New Zealand's activities expose it to a variety of financial instrument risks, including market risk, credit risk and liquidity risk.

Lotto New Zealand has policies to manage the risks associated with financial instruments. These policies do not allow any transactions that are speculative in nature.

Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to Standard and Poor's credit ratings (if available) or to historical information about counterparty default rates:

	30/06/14 \$000	30/06/13 \$000
Counterparties with credit ratings		
Cash at bank and term deposits		
AA-	84,941	86,361
A+	14,000	23,000
Total cash at bank and term deposits	98,941	109,361

	30/06/14 \$000	30/06/13 \$000
Counterparties without credit ratings		
Debtors and other receivables		
Existing counterparty with no defaults in the past	5,271	10,099
Total debtors and other receivables	5,271	10,099

Market risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. Lotto New Zealand's exposure to this is limited to its bank deposits, which are held at fixed rates of interest.

Credit risk

Credit risk is the risk that a third party will default on its obligation to Lotto New Zealand, causing Lotto New Zealand to incur a loss. Due to the timing of cash inflows and outflows, surplus cash is invested with registered banks. Lotto New Zealand investment policy limits the amount of credit exposure to any one bank.

Liquidity risk

Liquidity risk is the risk that Lotto New Zealand will encounter difficulty raising liquid funds to meet commitments as they fall due. In meeting its liquidity requirements, Lotto New Zealand ensures sufficient funds are available by managing investments that mature within specified timeframes.

27. Derivative financial instruments and hedging

	30/06/14 \$000	30/06/13 \$000
Current assets		
Forward currency contracts - cash flow hedges	-	18
Non-current assets		
Forward currency contracts - cash flow hedges	-	344
	-	362
Current liabilities		
Forward currency contracts - cash flow hedges	849	-
	849	362

Lotto New Zealand uses derivative instruments to reduce its exposure to fluctuations in foreign currency rates, specifically in relation to the upgrade of its core gaming system.

Lotto New Zealand formally designates hedging instruments to an underlying exposure and details the risk management objectives and strategies for undertaking hedge transactions. Lotto New Zealand assesses at inception, and on a six-monthly basis thereafter, as to whether the derivative financial instruments used in the hedging transaction are effective at offsetting the risks they are designed to hedge. Due to the high effectiveness between the hedging instrument and the underlying exposure being hedged, value changes in derivatives are generally offset by changes in fair value or cash flows of the underlying exposure.

At 30 June 2014 Lotto New Zealand held four forward exchange contracts to hedge future capital purchase commitments. The derivatives entered into were straightforward over-the-counter instruments with liquid markets. The contracts were timed to mature as payments were scheduled to be made to suppliers. The notional principal amounts of outstanding forward exchange contracts were NZD 7,116,565 (2013: NZD 8,636,382). The foreign currency amounts were USD 5,353,000 (2013: USD 6,531,350).

The foreign exchange contracts were considered to be fully effective hedges as they were matched exactly against the foreign capital purchases and any gain or loss was taken directly to equity. When the contract is delivered, Lotto New Zealand will adjust the initial measurement of the component recognised on the balance sheet by the related amount deferred in the cash flow hedge reserve.

28. Capital management

Lotto New Zealand's capital is its equity, which comprises retained earnings and revaluation reserves. Equity is represented by net assets. Lotto New Zealand is subject to the financial management and accountability provisions of the Crown Entities Act 2004, which impose restrictions in relation to borrowings, acquisition of securities, issuing guarantees and indemnities, and the use of derivatives.

29. Events after the statement of financial position date

There were no material events subsequent to balance date that would affect the interpretation of the financial statements.

30. Major budget variations

Sales including GST amounted to \$988.8 million, a shortfall against budget of \$11.2 million (or 1.1%). Lotto family sales were \$22.3 million ahead of budget primarily as a result of favourable Powerball jackpot runs. On the other hand, Big Wednesday jackpot runs were less favourable resulting in a deficit against the sales budget of \$21.5 million. Instant Kiwi sales, while \$4.8 million better than last year, fell short on budget by \$8.6 million. The launch of a new game, originally scheduled for 2013/14, was deferred until 2014/15. Budgeted sales for this game were \$6.3 million. Sales of Keno and Bullseye, both of which were budgeted to fall slightly with the introduction of the new game, were up on budget by a total of \$2.9 million.

Although sales were 1.4% lower than budget, gross profit, at \$286.9 million, was \$5.8 million (or 2.1%) up on budget. This was due to a number of factors including higher interest income, an improvement in MyLotto margins and lower Instant Kiwi printing costs.

As operating expenses for the year were in line with budget, the resultant net profit of \$226.2 million was \$5.8 million better than budget reflecting the performance at gross profit level.

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Dr Richard Janes

Deputy Chair

Miranda Burdon

Richard Holden

Tony Mossman

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Wayne Pickup

Chief Executive

Ben Coney

General Manager,
Digital

Chris Lyman

Chief Operating Officer

Dan Balasoglou

Chief Financial Officer

Sheree Tibble

General Manager,
People, Culture and Brand.



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