

Annual Report
2015/16





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The business of Lotto New Zealand

Our purpose

To provide safe gaming 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 risk of underage and problem gambling associated with our products.

We employ 126 staff, who are mostly based in Auckland, with a small number of our retail support staff based in different regions of the country. Our retail network encompasses over 1,365 lottery outlets across the country, which employ more than 5,000 people, making it the single largest retail network in New Zealand.

Our digital channel MyLotto.co.nz was introduced in 2008, with a complementary mobile site launched in 2012. Online sales continue to grow in popularity and now account for around 10% of Lotto NZ's total sales. Our ticket-checking app for smartphones has been downloaded almost 450,000 times and now scans around a million tickets each month.

Lotto was introduced to New Zealand in 1987. It was our first game and for many years it has remained New Zealand's

The Lotto New Zealand Board

The Lotto New Zealand Board is appointed by the Government and is responsible for Lotto New Zealand's overall policy and direction.



Judy Kirk
ONZM, Chair



Tony Mossman
Deputy Chair

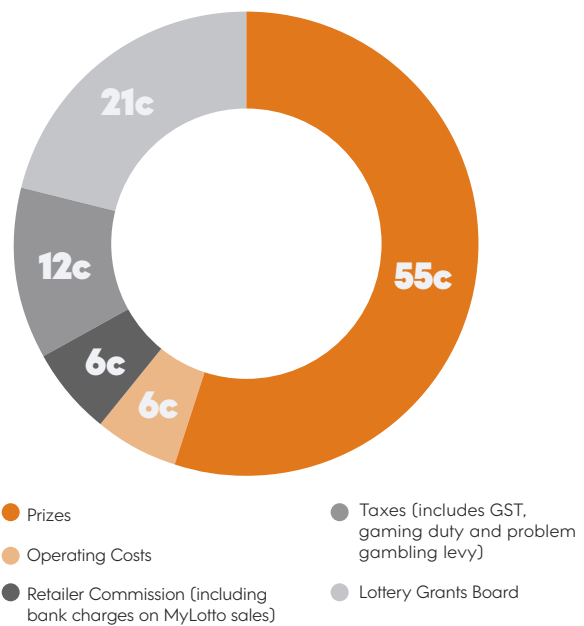
flagship lottery game. Our product range has expanded over the years to include Lotto Powerball, Lotto Strike, Big Wednesday, Instant Kiwi, Bullseye, Keno and Play 3. Lotto, Powerball and Strike became an even more important part of our product suite this year, as we introduced a Wednesday draw, in addition to the Saturday draw, and removed Big Wednesday.

Profits from Lotto New Zealand are transferred to the New Zealand 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, helping to make good things happen in our communities. The 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 2016.



Miranda Burdon



Mark Gilbert



Keiran Horne



Logan Sears

Chair and Chief Executive's report

We are pleased to report solid financial results for the year ended 30 June 2016 and a transfer of \$204 million back into community initiatives throughout New Zealand.

Overall sales for the year of \$974.2 million were up 9% on last year and represented our second-ever highest sales result, which translated into a net surplus of \$204 million.

We're pleased to report that a continual focus on driving efficiencies through the business is also paying dividends. Expenses are 2% down on last year and represented 6.3% of total sales, compared to 7% last year.

Once again, the business has not retained any earnings and all profits have been transferred to the Lottery Grants Board. Thanks to our players, lottery profits make good things happen right across New Zealand every year - thousands of community projects are made possible and essential funding is provided to support New Zealand's sportspeople, artists and filmmakers.

Performance highlights

In October, Big Wednesday was retired and replaced with a second weekly draw for Lotto, Powerball and Strike. Big Wednesday had been in market for 11 years and accounted for over 15% of total sales. However, we believed we could create a simpler and more dynamic lottery game by running Powerball twice a week, meaning jackpots would grow quicker and be higher more consistently.

The change to Lotto twice a week has been very successful. More people are playing and weekly sales combined across the two draws have increased by over 15%. The last quarter of the financial year saw two jackpot runs over \$20 million, and quarterly sales of \$293 million were a record quarterly result.

We continue to grow and evolve our retail presence across the country to reflect population growth and changing consumer habits. We have increased our presence in supermarkets and introduced an innovative and convenient technology solution in order to provide Lotto sales at fuel sites. Following the success of an initial 10-store pilot, a further roll-out of Lotto into 100 additional Z Energy stations is underway.

Our mobile and web services continue to go from strength to strength. More and more people are choosing to buy their

tickets online through MyLotto.co.nz and sales increased by almost 30% over last year to \$97.4 million. But it's not only MyLotto customers benefiting from the expanded digital offering. Over 1 million tickets are scanned each month using the Lotto NZ smartphone ticket-checker app, and we are set to further expand these mobile services over the coming months.

Underpinning this year's performance are solid foundations in responsible gaming, technology and risk.

Providing a responsible gaming environment is central to our operations. During the year our responsible gaming programme was recognised to the highest possible level by the World Lottery Association, under its Responsible Gaming Framework. We are proud to provide our players with a world-class programme of responsible gaming that is considered international best practice.

Lotto NZ's security management practices demonstrate international best practice, and we have recently successfully satisfied the rigorous criteria for two world-class security certifications. Through these certifications, we aim to reinforce our players' confidence in Lotto NZ's systems and processes that are designed to protect the integrity of our games and the personal information of our players.

We look after the wellbeing of our people and provide a safe working environment for all. Lotto NZ is committed to achieving the highest levels of health and safety practices and our aim is to be accredited under the ACC's Workplace Safety Management Practice, over the coming financial year.

Financial performance

Sales for the Lotto family of games amounted to \$731.1 million, and account for three-quarters of total sales. The final Big Wednesday draw was held on 30 September and sales for the three first months in FY16 were \$52.8 million.

Sales from Instant Kiwi during the year amounted to \$144 million, while the sales from our daily games together were \$46.4 million.

Total sales through MyLotto amounted to \$97.4 million during the period. This was up \$21.9 million (almost 30%) on the previous year and accounts for 10% of total sales, compared with 8% the previous year.

Cost control remains a focus for the business, and operating expenses for the year were \$61.6 million, 2% down on last year.

Net profit, all of which has been distributed to the Lottery Grants Board, amounted to \$204 million.

Looking ahead

In the coming financial years, we need to ensure that we continue to drive demand for our games through offering a strong Lotto game and making New Zealanders feel good about playing our games and the contribution they're making to the community.

MyLotto continues to represent an increasingly important channel for Lotto NZ. Over the coming year, we will continue to invest in developing a new digital platform - including MyLotto desktop, mobile, and app - to further strengthen our digital offering.

We intend to increase diversification by reaching more New Zealanders through extending the appeal of our games and brands to connect with an increasingly diverse market, together with developing our game portfolio.

In order to remain relevant to New Zealanders in the future, we need to front-foot disruption by being tuned into social and technology trends and having a comprehensive understanding of how consumers' needs are evolving.

Solid business foundations in financial management, responsible gaming, risk and security management, health and safety, and the operational availability and performance of our systems will support these programmes of work.

Thank you

We would like to acknowledge everyone that contributed towards Lotto NZ's excellent year. The results achieved this year would not have been possible without the input and support from our staff and our retail network partners. We thank you and look forward to working with you over the coming year. We'd also like to thank our players for their enthusiasm and love of the game, which enables us to generate essential funding to support over 3,000 community groups and projects.



Judy Kirk
Chair
21 September 2016



Wayne Pickup
Chief Executive
21 September 2016

Winners

MyLotto

MyLotto has cemented its reputation as one of the luckiest places to play Lotto, with two lucky MyLotto players from Auckland and Ashburton winning Powerball First Division with online tickets this year.

The Ashburton winners bought their \$22.2 million winning Powerball ticket online at MyLotto with just minutes to spare before sales closed.

"My fiancé and I were cooking dinner when I suddenly remembered that I hadn't picked up a ticket for the draw, so I raced to my laptop and quickly grabbed a ticket on MyLotto. Luckily I managed to get in just in time," said the winner.

The Auckland MyLotto Powerball First Division winners collected \$13 million late last year. These lucky MyLotto players weren't the only ones winning this year, with 2 million MyLotto players taking home more than \$68 million in prizes.

Fifteen MyLotto players won Lotto First Division prizes throughout the year, worth almost \$5 million. Three MyLotto players also won big with Strike Four this year, collecting more than \$370,000 in prizes.

Instant Kiwi

Over 10 million prizes were won around the country during the year, with Instant Kiwi players sharing more than \$97 million in prizes. This included 141 lucky players who won top prizes ranging from \$10,000 to \$250,000.

One lucky couple from Gisborne won \$20,000 on a \$2 Kiwi Cash Instant Kiwi ticket. The winners were thrilled with their big win and were looking forward to spending their winnings on their dream holiday.



Big Wednesday

The final Big Wednesday draw was held at the end of September, with 209 players sharing the \$15 million Must Be Won jackpot and each taking home \$87,272 - the largest number of winners to ever share a First Division jackpot.

As lucky winners claimed their prizes all over the country, a Gisborne woman found out that she had won First Division prizes on not one, but two of her tickets for the historic Big Wednesday draw.

The woman checked one of her winning tickets the morning after the Must Be Won draw, then returned later that morning to check other tickets she had found at home. When the Lotto operator told the winner that she had won big a second time, she burst into tears.

Over 935,000 Big Wednesday winners took home almost \$27 million in prizes with Big Wednesday in the first quarter of the year.

Lotto and Powerball

From October, Kiwis had even more chances to play and win with New Zealand's favourite lottery games as Lotto, Powerball and Strike came to Wednesday and Saturday, creating more winners and more millionaires than ever before.

It was one of the luckiest years ever for Powerball players, with 10 lucky players around the country winning First Division prizes worth \$97 million.

These winners came from all over New Zealand including Auckland, Tauranga, Hastings, Ohakune, Porirua, Lower Hutt, Ashburton and Timaru.

One of these lucky Powerball winners had just one thought when he realised that he'd won \$15.2 million with Powerball First Division just weeks ahead of Christmas - telling his best friend that he would give him half of the prize.

Just days after his big win, the winner handed his friend a copy of the winning ticket and

told him the good news over dinner and a drink. "I just gave him the thumbs up and said 'I won the big one - and half of it's yours!'"

More than 1.3 million Powerball players won with Lotto Powerball over the course of this year. This is the largest number of prizes ever won with Powerball, thanks in large part to the new Powerball Division Seven introduced in October, which creates over 25,000 additional Powerball winners every week.

Meanwhile, Lotto continues to help change the lives of New Zealanders with 168 players winning almost \$74 million in First Division prizes throughout the year - including 28 Kiwis who became overnight millionaires thanks to Lotto. Altogether over 3 million Lotto players won more than \$199 million this year.

Strike offers players another chance to win, and this year gave away \$47 million in prizes to over 8 million winners, with 33 players winning a share of more than \$8 million with Strike Four.



Keno, Bullseye and Play 3

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 \$1 and gives players the chance to win up to \$250,000, while Bullseye tickets start at \$2 and give players the chance to win up to \$400,000.

Many Bullseye players won big with the game this year, when a Must Be Won Bullseye draw in December saw 20 Bullseye players upsize their Third Division prizes to take home \$20,459 each.

Throughout the year more than 961,000 Bullseye players shared over \$9 million in prizes, and 2 million Keno players won more than \$17 million in prizes.

Meanwhile, the simple numbers game Play 3 saw thousands of Kiwis win each day. The fixed-odds game with tickets starting at \$1 has a top prize of \$500, with almost 17,000 Play 3 players winning \$1 million in total prizes this year.

Good on you Lotto players

Lotto New Zealand is the sole funder of the NZ Lottery Grants Board. All Lotto NZ profits are returned to Lottery Grants Board for distribution to the community and are a major source of funding for Sport New Zealand, Creative New Zealand, the New Zealand Film Commission and thousands of essential community services and projects.

Every New Zealander who has ever bought a Lotto ticket has played an important role in helping to build strong, sustainable communities - from funding facilities that bring communities together, to fostering young talent, providing life-saving community services and preserving our national heritage and wildlife.

In 2016, Lotto players provided \$204 million to the Lottery Grants Board to help create positive community outcomes. Here are just some of the ways Lotto players are making good things happen each time they play Lotto games.

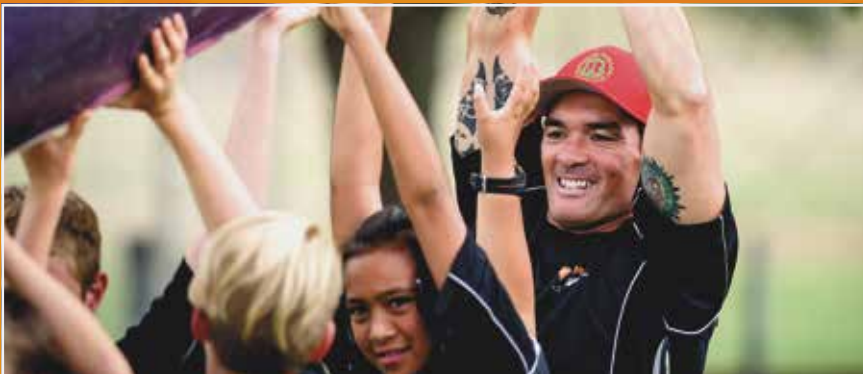
Keeping New Zealanders safe



Lotto players are helping to keep New Zealanders safe in the outdoors by providing funding to vital rescue organisations like Royal New Zealand Coastguard, Surf Life Saving New Zealand, New Zealand Mountain Safety Council, Water Safety New Zealand and various regional rescue helicopter services.

Lotto funding helps pay for the essential items that make it possible for rescue services to save Kiwi lives day and night, year after year including rescue equipment, Coastguard vessels and life jackets.

Lotto funding is essential to keeping rescue services like these running all over the country, which means many New Zealanders are able to make it safely home to their families.



'Thank a Sport Maker' team experience winners

Through Sport NZ, Lotto funding contributed almost \$45 million to sport in New Zealand this year. This helps fund national sports trusts, as well as community programmes to strengthen grassroots sport.

Through the 'Thank a Sport Maker' programme, Lotto NZ and Sport NZ are proud to recognise and reward sports volunteers for helping to make sport possible. Over the past three years this programme has recognised thousands of volunteers around the country and given away over \$1 million in sports merchandise to grassroots teams.

Some highlights of the past year include:

A club day to recognise Otago local Dallas Storer for his extraordinary efforts in transforming unused land into BMX tracks and skate parks, bringing the community together and creating a place for people of all ages to be active.

Training drills for three-to six-year-olds from the First Kicks Football in Whanganui by members of the Wellington Phoenix football team as a team experience in recognition of sports volunteer Jason King.



A very special friendship

You won't meet a better friend than this dog. He's even called 'Friend' and he has a very special bond with his owner, Mike. Friend is a mobility assistance dog who helps wheelchair-bound Mike with his everyday tasks including catching the train to school, opening doors and even brushing his teeth.

Mike says Friend is his best mate and Mike's mum credits Friend with dramatically improving Mike's confidence and ability to live a normal life. Thanks to Lotto players, Mobility Dogs are able to train and pair around 50 mobility assistance dogs with New Zealanders in need every year.



Kiwis for future generations of Kiwis

Every day Lotto players are helping our national bird thrive throughout New Zealand.

Lotto funding to organisations like the Orokonui Ecosanctuary plays an essential part in keeping kiwis safe, making sure future generations of Kiwis will get to enjoy our national bird in years to come.

Lotto players have supported Orokonui Ecosanctuary from the

beginning by contributing funds to the cornerstone of the sanctuary – the 8.7km predator fence designed to keep all species of predators out. Lotto funding has also gone towards construction of the award-winning Visitor Centre where important conservation education and skills are shared with over 11,000 visitors and around 7,000 students every year.

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 our company values.

Lotto NZ's employment policy outlines our commitment to equal opportunity in all of our procedures, including recruitment, selection and appointment practices, training, performance management, conditions of employment and the work environment.

Ensuring our staff are engaged with our business and creating an open and positive culture is key to delivering our future strategic initiatives at Lotto NZ. Lotto NZ'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

- All of our management staff across the business take part in a leadership programme focused on building leadership competencies and driving high-performance teams.
- Talent Reviews are conducted with senior leaders to understand key talent in the business and to create succession plans for senior and critical roles.
- Our performance management framework is designed to foster a high-performance culture that directly aligns to our strategic initiatives and company values.
- An annual engagement survey is conducted to gather organisation-wide feedback from staff, with actions put in place to address key areas of focus.
- An internal culture committee helps drive engagement within the business and embed our company values.
- The annual strategy is shared with staff at the start of each financial year to ensure they are clear on the direction of the business and how their contribution helps the business succeed.
- An annual staff seminar is held to reiterate the strategy, embed our culture and values, and recognise achievements and milestones.

Recruitment, induction and selection

- Lotto NZ has rigorous recruitment and selection processes to ensure we hire the best talent into the organisation. This includes personality and ability testing, multiple interviews and thorough reference checking.
- Internal applications are encouraged for all job vacancies.
- All new staff are involved in an induction programme, which provides useful information about Lotto NZ and helps staff get settled in.

Employee development, promotion and exit

- Each year, approximately 8-10 talented staff members are selected to participate in a leadership programme targeted at high-potential employees. The programme focuses on building confidence and self-awareness, as well as practical skill-based learning around presentations, influencing, and project management skills.
- All staff undertake six-monthly reviews with their managers to discuss their performance and provide formal opportunities for feedback.
- All staff set development goals at the start of each year, and are encouraged and supported to undertake appropriate training and professional development with a focus on learning through on-the-job growth opportunities.
- Opportunities for secondments and promotions are encouraged within the business to help our staff progress their careers with Lotto NZ.
- All staff are given the opportunity to complete an exit interview.

Flexibility and work design

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

Remuneration, recognition and conditions

- All roles within the business are evaluated and benchmarked externally to ensure our remuneration packages are fair and competitive in the market.
- Remuneration reviews take place annually for staff and are determined based on a combination of market benchmarking and performance.
- Performance incentives are provided for specific roles to drive high performance against specific and measurable goals.
- 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 of harassment and bullying.
- All staff are required to adhere to the Code of Conduct, which sets out Lotto NZ's policies.

Safe and healthy environment

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

Workplace profile

As at 30 June 2016

	Number	Percentage
Staff numbers FTE	122.5	
Headcount	126	
Gender		
Women	71	56%
Men	55	44%
Senior management (Chief Executive and direct reports)		
Women	4	44%
Men	5	56%
Management (Of functional teams, more than five reports, not including senior management)		
Women	4	33%
Men	8	67%
Age		
20 - 29	23	18%
30 - 39	58	46%
40 - 49	31	25%
50 - 59	13	10%
60 and over	1	1%
Total	126	100%
Ethnicity distribution		
Asian	12	9.5%
European	19	15.1%
European/New Zealander	74	58.7%
Indian	10	7.9%
Maori	4	3.2%
Pacific	6	4.8%
Other	1	0.8%
Total	126	100%

*We also collect disability data.

Responsible gaming programme

Lotto New Zealand is committed to providing a safe, secure and friendly gaming environment that encourages responsible play. We cannot achieve our objective of maximising benefits for New Zealand communities if playing our games is causing undue harm.

Corporate social responsibility is embedded into the day-to-day operations of our business. Put simply, we want to make a positive difference to all of our stakeholders, including New Zealand communities, our players, our retailers, and our employees. Most people buy their lottery tickets for entertainment and recreational purposes. However, we know that a small number of people may experience gambling problems while playing our games.

We aim to educate and enable players to make informed choices and develop responsible play habits, and to provide tools and support for players who may need assistance.

This year our responsible gaming programme was certified to the highest possible level under the World Lottery Association's Responsible Gaming Framework, making Lotto NZ one of only four lotteries in the Asia Pacific region to be certified to level 4. Our programme consists of policies and practices designed to prevent and reduce potential harm associated with gaming, including excessive spending, with emphasis on employee and retailer education, information and support for customers, and the design and marketing of our games.

Game design

- All new games, or game changes, are subject to review and approval by the Department of Internal Affairs
- The Ministry of Health is consulted on all new games and game changes, to provide assurance that harm minimisation is a key consideration in game design
- All games are reviewed using an independent, external game evaluation tool during the design stage to assess the potential risk of a game and to identify any game features that may need to be addressed in order to minimise the potential risk.

Marketing and advertising

- Our marketing, including advertising and promotions, is intended to promote our games as fun, entertaining and recreational
- We have strict marketing and design principles in place to ensure our products are not directed at, or primarily appealing to, minors

- We will not promote reliance on gaming as a means of relieving financial difficulty
- We will not encourage consumers to participate excessively or beyond their means
- We will not imply a promise of winning nor portray unrealistic outcomes
- We will not exaggerate the chances of winning or the size of the prize
- We will not imply a player's skill can influence the outcome of our games
- All Lotto NZ advertising adheres to the Advertising Standard Authority's Code for Advertising and Gambling 2001.

Player education

- Information about responsible play, including the odds of all of our games, is available from every Lotto store in our retail network. Our responsible play brochure has also been translated into Mandarin and Korean
- Instant Kiwi is an age restricted product, and an R18-restricted logo is present on all tickets, advertising, and point of sale. Any Instant Kiwi player who looks under 25 is asked for appropriate identification
- An overview of the age-restriction policy for Instant Kiwi and acceptable forms of identification is available in all stores
- Reminders to have fun and play responsibly are included on all lottery coupons and tickets
- We support customers who wish to self-exclude from playing our games in-store
- Information about responsible play tools are available on MyLotto. All electronic communications to customers include a reminder to 'have fun and play responsibly' and a link to our responsible play resources online.

Our retail network

- We are committed to providing games in a safe, secure and friendly environment, and our retailers are a crucial channel for information and support
- All retailers are trained to ask for identification for any Instant Kiwi customer that looks 25 or under and to identify potential problem-gambling behaviour
- We provide retailers with tools and support to help them identify and address underage gambling and concerning customer behaviour, and work with them to ensure they have the skills and information they need to support Lotto's responsible gaming programme.

Digital channels

- We provide information online about our games including how they are played, how prizes are redeemed, and the odds of winning for each game
- Our online games through MyLotto have mandatory spending limits set in conjunction with the Department of Internal Affairs and the Ministry of Health
- Customers can set their own lower spending limits. Increases to these limits are subject to enforced delays to help prevent spontaneous decisions to increase spending
- Customers can self-exclude themselves from playing any of our games online
- The maximum online account balance is \$999. If any customer has a balance higher than this, they cannot purchase tickets until they withdraw money to reduce their balance
- 2nd Chance draw has a maximum of \$150 worth of tickets that can be entered in one week
- We actively monitor customers' spending limits and provide information and support to any players regularly spending up to the site maximum for MyLotto and 2nd Chance.

Our stakeholders

- We work with problem gambling treatment providers to gather valuable input to improve the tools and resources we provide to our players, retailers and staff to educate and enable responsible play choices
- We collaborate with the Health Promotion Agency to support their objectives and to direct customers to their self-help tools and resources
- Our employees are all trained in responsible gaming. We have a team of Responsible Gaming Champions across the business who help us to identify gaps and opportunities. Responsible gaming forms a key part of our day-to-day decision making throughout the business
- We use research to benchmark retailer and employee knowledge of responsible gaming as well as customer attitudes towards gambling and our responsible gaming messaging.

A snapshot of responsible gaming measures

We can find no clear explanation for the increase in problem gambling citations from the previous financial year. Although Lotto NZ's increased focus on problem gambling awareness training, and provision of treatment referral information through our retail and online channels, may account for some of this.

We look forward to receiving a breakdown of the data from the Ministry of Health to a more granular level to enable further analysis. The methodology to collect this data has changed a number of times over the years, impacting the ability to track this over time, and we are working with research agencies to identify a more empirically robust benchmark of harm minimisation for our business over time.

Lotto NZ is committed to providing a safe gaming environment and we continue to improve our approach to responsible gaming to ensure we have information available for customers both in-store and online encouraging responsible play and providing the contact details for treatment service providers for players who may need to seek help.

	Actual 2015/16	Target 2015/16	Actual 2014/15
Amount transferred to the Lottery Grants Board for community funding (\$m)	204.0	200.2	198.6
Problem Gambling Levy (\$m)	1,288	1,218	1,154
Count of retailers convicted of selling Instant Kiwi to people under 18 years	Nil	Nil	Nil
Count of 'primary mode of gambling' citations	536 ¹	<300	383
Average GaM-GARD score for all Lotto games	29 (Low)	<40 (Low)	28.3 (Low)
Advertising Standards complaints upheld	Nil	Nil	Nil
Brand health	61%	60% New measure	

1. Based on preliminary data provided by the Ministry of Health to 31 March 2016. This data is therefore pro-rated for 12 months.

Statement of performance

Our purpose

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

Our vision

To be a world leading lottery for the maximum benefit of New Zealand communities.

Goal

Our goal for the next four financial years is to transfer a minimum of \$200 million to the New Zealand Lottery Grants Board every year.

Key results

In all of our activities, we aim to:

- Maximise profits for transfer to the Lottery Grants Board for the benefit of New Zealand communities
- Minimise the harm from problem and underage gambling associated with our products.

Outputs

Lotto New Zealand has one class of outputs - our games. By successfully and responsibly promoting and running our games, we will deliver these results.

Performance measures

This statement shows Lotto NZ's performance for the year ended 30 June 2016, including:

- Actual performance measured against targets, as published in the Statement of Performance Expectations, unless otherwise stated.
- The reasons for any significant variances between the actual service and the expected service.

Profit maximisation

	Key Performance Indicator	Status	Actual 2015/16	Target 2015/16	Actual 2014/15	Target 2014/15
	Sales (\$m)		974.2 ¹	997.4	893.7	1,009.7
	Operating expenses(\$m)		61.6 ²	66.0	62.8	64.8
	% operating expenses	●	6.3	6.6	7.0	6.4
	Net profit (\$m)	●	204.0 ³	200.2	198.6	225.1
	Paid to the NZ Lottery Grants Board		204.0	200.2	198.6	225.1
Lotto/Powerball/Strike	Sales (\$m)	●	731.1 ⁴	749.1	545.4	666.7
	Gross margin (\$m)		202.7	204.3	136.7	178.3
Big Wednesday	Sales (\$m)	●	52.8 ⁴	42.2	152.0	120.4
	Gross margin (\$m)		21.0	12.2	50.4	35.6
Instant Kiwi	Sales (\$m)	●	144.0 ⁵	154.5	147.0	165.9
	Gross margin (\$m)		20.7	22.1	22.1	22.6
Other games (Keno, Bullseye and Play3)	Sales (\$m)	●	46.4 ⁶	51.5	49.3	56.7
	Gross margin (\$m)		10.9	12.1	12.4	13.6

1. Sales including GST amounted to \$974.2 million, a shortfall against budget of \$23.2 million (or 2.3%). Further explanation of this variance is included in the notes below by product.

2. Operating expenses for the year came in below budget by \$4.4 million (or 6.7%), delivered principally through efficiencies in marketing and advertising spend.

3. Net profit amounted to \$204.0 million, \$3.8 million (or 1.9%) higher than budget mainly as a result of operating expense efficiencies and a higher contribution through MyLotto sales.

4. Our large jackpot games (Lotto Powerball and Big Wednesday) were \$7.5 million (or just under 1%) below budget. After a slightly lower than expected start to sales following the launch of Lotto Powerball on a Wednesday, we have seen an improved sales performance, particularly on Lotto Powerball on a Wednesday. In the last quarter of the financial year we have exceeded budget for Lotto Family (Lotto, Powerball and Strike) by \$39 million (or 19%) due to increased performance and two strong Powerball runs in the quarter. Wednesday sales under Lotto Powerball are around 62% higher than Big Wednesday at like jackpots. On a weekly basis, sales of large jackpot games are around 17% higher through Lotto Powerball on a Wednesday and Saturday compared to when we had Big Wednesday and Lotto Powerball on a Saturday.

5. Instant Kiwi sales were \$10.5 million (or 6.8%) below budget. Instant Kiwi sales have been impacted since the launch of Lotto Powerball on a Wednesday as we believe some people have adjusted their weekly Instant Kiwi spend to also play Lotto Powerball on a Wednesday. Furthermore, with the growth of our digital channel through MyLotto, this has had an impact on Instant Kiwi sales as this product is not offered online. Instant Kiwi remains a key product in our portfolio with initiatives currently in progress, or planned, to grow sales in the future.

6. Other games were \$5.1 million (or 10.0%) below budget. Keno sales were the largest contributor to the variance with a shortfall in sales of \$3.2 million compared to budget because the benefit of two additional draws was not achieved. While budget was not achieved, there has been an increase in sales of Keno in the last quarter of 2015/16 with sales 3.9% higher than the same quarter last year and 17% higher than quarter three of 2015/16. This has been driven largely through an initiative on MyLotto where a new 'add on Keno' option has been added to customers as they complete their Lotto Powerball purchase.

Harm minimisation

Key Performance Indicator	Status	Actual 2015/16	Target 2015/16	Actual 2014/15	Target 2014/15
Count of 'primary mode of gambling' citations by new problem gamblers who received full intervention treatment and new affected others	●	536 ⁷	<300	383	<300
Citations per 10,000 players		1.9 ⁸	<1.5	1.1	<1.5
Certification under the World Lottery Association's Responsible Gaming Framework	●	Level 4	Level 4	Level 3	Level 3
Count of retailers convicted of selling Instant Kiwi to people under 18 years		Nil	Nil	Nil	Nil
Average GaM-GARD score for all Lotto games ⁹		29.0 (Low)	<40 (Low)	28.3 (Low)	<40 (Low)
Advertising Standards complaints upheld for all Lotto games		Nil	Nil	Nil	Nil

7. Based on preliminary data provided by the Ministry of Health to 31 March 2016 - this data is therefore pro-rated for 12 months. We can find no clear explanation for the increase in problem gambling citations from the previous financial year. Although Lotto NZ's increased focus on problem gambling awareness training, and provision of treatment referral information through our retail and online channels, may account for some of this. We look forward to receiving a breakdown of the data from the Ministry of Health to a more granular level to enable further analysis. The methodology to collect this data has changed a number of times over the years, impacting the ability to track this over time, and we are working with research agencies to identify a more empirically robust benchmark of harm minimisation for our business over time. Lotto NZ is committed to providing a safe gaming environment and we continue to improve our approach to responsible gaming to ensure we have information available for customers both in-store and online encouraging responsible play and providing the contact details for treatment service providers for players who may need to seek help.

8. Based on 2.73 million New Zealanders aged 18+ years claiming to play our games at least once per year.


9. GaM-GARD is an independent, external game evaluation tool used to assess the potential risk of our portfolio of games. Over the past year, GaM-GARD have changed their parameters to introduce new risk levels. Previously the following ratings were: low (0-20), medium (20-40), high (40-60). Now these are: very low (0-20), low (21-40), medium (41-60), high (61-80) and very high (81-100). 2014/15 actuals and target were therefore re-calculated by applying the new parameters. Our average GaM-GARD score has changed slightly as a result of removing Big Wednesday from our portfolio.

Increase penetration and frequency of play¹⁰

Key Performance Indicator	Status	Actual 2015/16	Target 2015/16	Actual 2014/15	Target 2014/15	
Average weekly total sales during low jackpot weeks	●	Total	16.0	16.5	15.7	New measure
		Retail	14.6	15.1	14.4	New measure
		MyLotto	1.4	1.4	1.3	New measure
Average weekly total sales during low jackpot weeks	●	Total	16.7	17.4	N/A	New measure
		Retail	15.0	15.8	N/A	New measure
		MyLotto	1.6	1.6	N/A	New measure
Average weekly transaction count during low jackpot weeks	●	Total	1.18	1.23	1.17	New measure
		Retail	1.04	1.08	1.04	New measure
		MyLotto	0.144	0.145	0.135	New measure
Average weekly transaction count during low jackpot weeks	●	Total	1.22	1.36	N/A	New measure
		Retail	1.06	1.19	N/A	New measure
		MyLotto	0.16	0.174	N/A	New measure


10. Increase penetration and frequency of play metrics are lower than the target predominantly due to the Powerball jackpot being struck more often than we would statistically expect. The Powerball jackpot was often struck at low levels in the year, resulting in lower levels of play when compared to the average we would anticipate during a normal distribution of Powerball jackpots under 510 million.

Drive customer engagement with Lotto NZ

Key Performance Indicator	Status	Actual 2015/16	Target 2015/16	Actual 2014/15	Target 2014/15
Lotto NZ brand health ¹¹		61%	60%	New measure	New measure


11. Percentage of people who answered 'like' or 'love' to the question 'How do you feel about Lotto NZ?' Source: Colmar Brunton. Sample size = 500. Response rate 14%. Maximum margin of error +/- 4.47%.

Technology enablement - new set of measures not included in the 2015/16 Statement of Performance Expectations


Key Performance Indicator	Status	Actual 2015/16	Target 2015/16	Actual 2014/15	Target 2014/15
Digital sales (\$m)		97.4	88.9	75.5	82.7
Number registered MyLotto players		454,000	Target not set	380,000	Target not set
MyLotto usage - average weekly visits ¹²		604,000	Target not set	495,935	490,000

12. Average number of weekly visits to the MyLotto site. Source: Google Analytics




Retail experience - new set of measures not included in the 2015/16 Statement of Performance Expectations

Key Performance Indicator	Status	Actual 2015/16	Target 2015/16	Actual 2014/15	Target 2014/15
Retail sales (\$m)		876.8	908.5	818.2	927.0
Number of retail outlets		1,366	Target not set	1,345	1,345
Supermarket penetration		82.8%	Target not set	80.0%	80.0%

Operational performance - new set of measures not included in the 2015/16 Statement of Performance Expectations

Key Performance Indicator	Status	Actual 2015/16	Target 2015/16	Actual 2014/15	Target 2014/15
Retail network unplanned downtime		0 hours	<4 hours	0 hours	<1.25 hours
Core gaming system unplanned downtime		0 hours	<0.5 hours	0 hours	<1.25 hours
MyLotto unplanned downtime		0 hours	<0.5 hours	4 hours	<1.25 hours

Status Key

-  Achieved overall target for 2015/16.
-  Part achieved target, and/or within 2.5% of achieving, and/or actual for 2015/16 was higher than actual for 2014/15.
-  Did not achieve target for 2015/16.

Financial statements

Statement of responsibility

For the year ended 30 June 2016

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 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 performance fairly reflect the financial position and operations of Lotto New Zealand.



Judy Kirk

Chair

21 September 2016



Tony Mossman

Deputy Chair

21 September 2016

Independent auditor's report

To the readers of New Zealand Lotteries Commission's financial statements and performance information for the year ended 30 June 2016

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

Opinion on the financial statements and the performance information

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 2016, the statement of comprehensive income, statement of movements in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance information of the Commission on pages 14 to 16.

In our opinion:

- the financial statements of the Commission:
 - present fairly, in all material respects:
 - > its financial position as at 30 June 2016; and
 - > its financial performance and cash flows for the year then ended; and
 - comply with generally accepted accounting practice in New Zealand and have been prepared in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards;
- the performance information:
 - presents fairly, in all material respects, the Commission's performance for the year ended 30 June 2016, including for each class of reportable outputs:
 - > its standards of performance achieved as compared with forecasts included in the statement of performance expectations for the financial year; and
 - > its actual revenue and output expenses as compared with the forecasts included in the statement of performance expectations for the financial year; and

> complies with generally accepted accounting practice in New Zealand.

Our audit was completed on 21 September 2016. 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 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 the 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 the 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 the performance information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and the 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 performance information 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 performance information within the Commission's framework for reporting performance;
- the adequacy of the disclosures in the financial statements and the performance information; and
- the overall presentation of the financial statements and performance information.

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

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 performance information that:

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

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

The Board is responsible for such internal control as it determines is necessary to enable the preparation of financial statements and 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 the performance information, whether in printed or electronic form.

Responsibilities of the Auditor

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

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 we have carried out a review engagement of the New Zealand Lotteries Commission's financial statements for the six months ended 31 December 2015 and acted as scrutineer for all Lotto products, Big Wednesday, Bullseye, Daily Keno and Play 3 games and Instant Kiwi products. These assignments are compatible with those independence requirements.

Other than the audit, review engagement and scrutineering function, we have no relationship with or interests in the Commission.



Karen MacKenzie

Audit New Zealand

On behalf of the Auditor General
Auckland, New Zealand.

Statement of comprehensive income

For the year ended 30 June 2016

	Note	30/06/16 Actual \$000	30/06/16 Budget \$000	30/06/15 Actual \$000
Revenues				
Revenues	2	926,748	949,748	850,605
Cost of sales	3	661,168	683,556	589,234
Gross profit		265,580	266,192	261,371
Expenses				
Promotion and retail support		23,365	26,459	24,542
Property, plant and equipment depreciation	4	4,524	4,907	5,054
Computer software amortisation		1,433	2,047	1,597
Gaming system expenses excluding depreciation		6,440	5,710	6,215
Employee remuneration		13,776	13,707	12,462
Other	5	12,043	13,149	12,898
Total expenses		61,581	65,979	62,768
Profit		203,999	200,213	198,603
Distribution of profit to the NZ Lottery Grants Board		203,999	200,213	198,603
Profit/(loss) after distributions to the NZ Lottery Grants Board		-	-	-
Other comprehensive income - net change in fair value of cash flow hedges	24	-	-	849
Total comprehensive income		-	-	849

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 2016

	Note	30/06/16 Actual \$000	30/06/16 Budget \$000	30/06/15 Actual \$000
Equity at beginning of the year		23,113	23,113	22,264
Comprehensive income				
Profit after distributions to the NZ Lottery Grants Board		-	-	-
Other comprehensive income				
Net change in fair value of cash flow hedges	24	-	-	849
Equity at the end of the year	18	23,113	23,113	23,113

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

Statement of financial position

As at 30 June 2016

	Note	30/06/16 Actual \$000	30/06/16 Budget \$000	30/06/15 Actual \$000
Assets				
Current assets				
Cash and cash equivalents	6,9	67,515	50,524	30,180
Term deposits	7,9	38,608	20,700	20,551
Debtors and other receivables	10	7,828	4,200	8,161
Prepayments		4,362	4,400	3,360
Inventories	11	2,581	2,000	3,204
Total current assets		120,894	81,824	65,456
Non-current assets				
Property, plants and equipment	12	18,172	14,874	20,034
Computer software	13	6,914	12,927	5,847
Total non-current assets		25,086	27,800	25,881
Total assets		145,980	109,625	91,337
Liabilities				
Current liabilities				
Creditors and other payables	14	96,614	64,786	49,851
Prize reserve account	15	23,345	19,319	15,248
Annuity prize liabilities		-	-	50
Employee entitlements	16	786	700	648
Provisions	17	417	-	486
Lease incentive		235	235	235
Total current liabilities		121,397	85,041	66,518
Long-term liabilities				
Lease incentive		1,470	1,471	1,706
Total long-term liabilities		1,470	1,471	1,706
Total liabilities		122,867	86,512	68,224
Equity				
Retained earnings	18	23,113	23,113	23,113
Total equity		23,113	23,113	23,113
Total liabilities and equity		145,980	109,625	91,337

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

Judy Kirk
Chair
21 September 2016



Tony Mossman
Deputy Chair
21 September 2016



Statement of cash flows

For the year ended 30 June 2016

	Note	30/06/16 Actual \$000	30/06/16 Budget \$000	30/06/15 Actual \$000
Cash flows from operating activities				
Sales		917,229	939,818	838,888
Net GST (paid)/received		1,663	-	1,462
Other receipts		6,955	6,152	7,399
Prize payments		(503,736)	(556,085)	(516,593)
Lottery duty		(53,170)	(54,856)	(48,402)
Retailers' commission		(61,983)	(64,927)	(58,621)
Employee costs		(13,407)	(13,707)	(12,378)
Other payments		(48,578)	(52,006)	(44,315)
Net cash flow from operating activities		244,973	204,389	167,441
Cash flows from investing activities				
Net reduction in term deposits		(18,057)	300	7,616
Sale of property, plant and equipment		170	135	183
Interest received		2,752	2,602	4,130
Purchase of property, plant and equipment		(2,749)	(1,674)	(10,184)
Purchase of computer software		(2,501)	(6,370)	(2,473)
Net cash flow from investing activities		(20,385)	(5,007)	(727)
Cash flows from financing activities				
Discharge of annuity prize liabilities		(50)	(50)	(150)
Payments to the NZ Lottery Grants Board		(187,203)	(200,213)	(207,157)
Net cash flow from financing activities		(187,253)	(200,263)	(207,307)
Net (decrease)/increase in cash balances		37,335	(881)	(40,594)
Opening cash and cash equivalents balance		30,180	51,405	70,774
Closing cash and cash equivalents balance	6	67,515	50,524	30,180

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

Reconciliation of net profit/(loss) to net cash flow from operating activities	30/06/16 \$000	30/06/15 \$000
Profit/(loss) after distribution to the NZ Lottery Grants Board	-	-
Adjustments for non-cash items:		
Depreciation of property, plant and equipment	4,525	5,054
Amortisation of computer software	1,433	1,597
Changes in assets and liabilities		
(Increase)/decrease in receivables for current games	(7,648)	4,752
(Increase)/decrease in trade receivables	7,981	(7,642)
(Increase)/decrease in prepayments	(1,002)	3,955
(Increase)/decrease in stock	623	951
Increase/(decrease) in moneys received or receivable for games	1,290	647
Increase/(decrease) in prize liabilities	24,110	(15,095)
Increase/(decrease) in trade creditors	4,498	2,639
Increase/(decrease) in provisions	(69)	(63)
Increase/(decrease) in employee entitlements	157	19
Increase/(decrease) in lease incentive	(236)	(176)
Increase/(decrease) in prize reserve account	8,097	(23,753)
Add/(less) items classified as investing or financing activities		
Interest receipts	(2,752)	(4,130)
(Gain)/loss on sale of property, plant and equipment	(83)	(14)
Annuity prize liabilities	50	97
NZ Lottery Grants Board	203,999	198,603
Net cash inflow from operating activities	244,973	167,441

Statement of commitments

As at 30 June 2016

	30/06/16 \$000	30/06/15 \$000
Capital commitments approved and contracted		
Property, plant and equipment	2,421	182
Total capital commitments	2,421	182
Non-cancellable operating lease commitments, payable		
Not later than one year	1,033	1,017
Later than one year and not later than two years	797	1,017
Later than two years and not later than five years	2,363	2,372
Later than five years	1,772	2,560
Total non-cancellable operating lease commitments	5,965	6,966
Other non-cancellable contracts		
Not later than one year	13,486	11,689
Later than one year and not later than two years	3,138	1,897
Later than two years and not later than five years	6,192	3,909
Later than five years	-	-
Total other non-cancellable contracts	22,816	17,495
Total commitments	31,202	24,643

Lotto NZ has non-cancellable operating leases for its offices and St Lukes store. These lease operating commitments are included in the table above. Further details are as follows:

- Auckland office - In September 2013, Lotto NZ sold their building at 117 Khyber Pass Road, Auckland and then leased the premises for a further 12 months until September 2014. The annual rental was \$699,240.
- On 21 July 2014, Lotto NZ moved to new Auckland premises. A sublease was entered into from July 2014 to September 2014 until the main lease agreement commenced in October 2014 for a period of nine years until September 2023 with renewal options for two further terms of six years each. An incentive was also offered to enter the lease agreement which will be amortised over the nine-year lease period. 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 \$47,100.
- Wellington office - the lease expired on the existing building 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.
- Auckland St Lukes store - the lease runs until July 2017 with annual reviews. The annual rent is \$117,447.
- There are no restrictions placed on Lotto NZ 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 2016

There were no contingent liabilities or contingent assets at either 30 June 2016 or 30 June 2015.

Notes to the financial statements

1. Statement of accounting policies for the year ended 30 June 2016

Reporting entity

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

The financial statements for Lotto NZ are for the year ended 30 June 2016, and were approved by the Board on 21 September 2016.

Statement of compliance

These financial statements have been prepared in accordance with New Zealand generally accepted accounting practice (GAAP). Lotto NZ has determined that it is a for-profit entity for the purpose of complying with the New Zealand equivalent to International Financial Reporting Standards and applies Tier 1 For-profit Accounting Standards. They comply with International Financial Reporting Standards (IFRS) and New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).

Standards, amendments and interpretations issued and not yet effective:

There are no standards, amendments or interpretations applicable to Lotto NZ that have been issued but are not yet effective.

Basis of preparation

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 published in Lotto NZ's Statement of Performance Expectations.

Comparative figures

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.

Changes in presentation of financial statements

During the year the prize reserve fund was reclassified as a current liability in accordance with IAS 1. Interest on the prize reserve fund which was previously recorded directly against the prize reserve fund has been recognised as interest received

in the statement of comprehensive income in accordance with IAS 18. The net impact on the profit and loss is nil due to a corresponding expense included to reflect transfer of interest received to the prize reserve fund.

Changes in accounting policies

There have been no changes in accounting policies.

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 profit or loss 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 profit or loss when they accrue to employees.

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

Termination benefits are recognised in the profit or loss 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 NZ holds.

Financial instruments

Cash and cash equivalents, and term deposits

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

Term deposits represent deposits and other instruments with

maturities of more than three months from acquisition date.

It is Lotto NZ'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 NZ 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. During the year there was no forward exchange contracts held by Lotto NZ (2015: Nil).

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 profit or loss in the period the write-down occurs.

Interest

Interest income is recognised by accruing on a time proportion basis the interest due for the investment.

Estimates and assumptions

In preparing these financial statements, Lotto NZ has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions 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.

Critical judgements in applying accounting policies

Lotto NZ has assessed the prize reserve account as a current liability as itemised in the prize reserve account policy below. Lotto NZ has also classified the payment to the NZ Lottery Grants Board as a financial activity in the statement of cash flows due to this payment being a distribution of profits. No other critical judgement has been made when applying accounting policies.

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 NZ's games. Lotto NZ has classified this account as a current liability due to the Rules requiring the balance to be paid to winners in the future. Transfers into this account comprise amounts set aside for prizes payable 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 account balance.

Property, plant and equipment

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

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 NZ and the cost of the item can be measured reliably. Work in progress is valued at costs less impairment.

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 profit or loss.

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 NZ 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 profit or loss 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

Work in progress included in property plant and equipment is not depreciated.

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.

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.

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, Play 3 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 NZ is exempt from income tax by virtue of Section 264 of the Gambling Act 2003.

The following taxes are paid by Lotto NZ:

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

2. Revenues

	30/06/16 Actual \$000	30/06/16 Budget \$000	30/06/15 Actual \$000
Sales			
Lotto, Strike and Powerball	731,082	749,128	545,423
Instant Kiwi	143,997	154,506	146,952
Big Wednesday	52,757	42,232	151,988
Keno	28,275	31,425	29,471
Bullseye	15,832	16,327	16,620
Play3	2,274	3,760	3,219
Sales including GST	974,217	997,378	893,673
GST	56,977	57,560	54,556
Sales excluding GST	917,240	939,818	839,117
Other revenue			
Telecommunications and terminal maintenance cost recovery	5,671	6,152	5,637
Retailers' establishment fees	570	434	730
Interest	2,752	2,614	4,130
Sundry	515	730	991
	9,508	9,930	11,488
Total revenues	926,748	949,748	850,605

3. Cost of sales

	30/06/16 Actual \$000	30/06/16 Budget \$000	30/06/15 Actual \$000
Lottery duty	53,582	54,856	49,152
Problem gambling levy	1,288	1,324	1,154
Retailers' commission and MyLotto transaction fees	62,695	64,927	58,239
Prizes paid and payable	487,193	506,766	437,335
Prize reserve account	49,762	49,318	35,961
Interest transferred to prize reserve account	960	1,000	2,067
Ticket costs	5,111	4,635	4,165
Cost of goods sold to retailers	577	730	1,161
	661,168	683,556	589,234

4. Property, plant and equipment depreciation

	30/06/16 Actual \$000	30/06/16 Budget \$000	30/06/15 Actual \$000
The total depreciation charge for each class of assets is as follows:			
On cost			
Gaming computers and associated equipment	3,178	3,466	3,754
Other computer hardware	678	698	712
Draw equipment	13	17	-
Leasehold improvements	309	380	254
Furniture and fittings	105	89	108
Motor vehicles	200	233	196
Office equipment	41	24	30
	4,524	4,907	5,054

5. Other expenses

	30/06/16 Actual \$000	30/06/16 Budget \$000	30/06/15 Actual \$000
Fees paid to Audit New Zealand			
- Audit of annual financial statements	183	180	180
- Scrutineering function	135	180	124
- Review engagement for six-monthly interim accounts	14	15	14
Board members' fees	164	149	148
Interest	6	3	8
Premises costs	1,567	1,568	1,532
IT and telecommunications	6,001	6,572	6,561
Other	3,973	4,482	4,332
	12,043	13,149	12,898

Board members' fees are itemised in Note 21.

6. Cash and cash equivalents

	30/06/16 \$000	30/06/15 \$000
Cash and bank balance	10,488	13,160
Short-term deposits	57,000	17,000
Accrued interest	27	20
	67,515	30,180

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

7. Term deposits

	30/06/16 \$000	30/06/15 \$000
Term deposits	38,500	20,500
Accrued interest	108	51
	38,608	20,551

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

	30/06/16 \$000	30/06/15 \$000
Payment of prizes	71,617	39,460
MyLotto player funds	5,333	3,613
Total restricted amount	76,950	43,073

9. Fair value of investments

	30/06/16 Carrying amount \$000	30/06/16 Fair value \$000	30/06/16 Purchase yield	30/06/15 Carrying amount \$000	30/06/15 Fair value \$000	30/06/15 Purchase yield
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	95,635	95,594	2.83%	37,571	37,552	3.93%
	95,635	95,594	2.83%	37,571	37,552	3.93%
Represented in the statement of financial position as:						
Short-term deposits - maturities up to three months from acquisition date	57,027	57,024		17,020	17,018	
Term-deposits - maturities of more than three months from acquisition date	38,608	38,570		20,551	20,534	
	95,635	95,594		37,571	37,552	

10. Debtors and other receivables

	30/06/16 \$000	30/06/15 \$000
Due from retailers for current games	7,783	135
Trade receivables	45	8,026
	7,828	8,161

Trade receivables represent gaming sales swept from the gaming system but not received from the retailer at year end and amounts outstanding for retailer fitout. Funds due from retailers represent accrued income for current games not swept.

Lotto NZ'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.

	30/06/16 \$000	30/06/15 \$000
Not past due	7,827	7,871
Past due 1-30 days	-	64
Past due 31-60 days	-	45
Past due 61-90 days	-	27
Past due > 91 days	1	154
	7,828	8,161

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

11. Inventories

	30/06/16 \$000	30/06/15 \$000
Instant Kiwi ticket stock	1,881	2,071
Other stock	700	1,133
	2,581	3,204

No inventories are pledged as security for liabilities.

12. Property, plant and equipment

	30/06/16 \$000	30/06/15 \$000
Leasehold improvements		
Cost at beginning of year	2,043	1,110
Additions	-	1,901
Disposals	(5)	(968)
Cost at end of year	2,038	2,043
Accumulated depreciation at beginning of year	288	1,002
Depreciation for the year	309	254
Disposals	(5)	(968)
Accumulated depreciation at end of year	592	288
Carrying amount at end of year	1,446	1,755

12. Property, plant and equipment - continued

	30/06/16 \$000	30/06/15 \$000
Gaming computer equipment		
Cost at beginning of year	45,246	44,335
Additions	1,865	7,403
Disposals	(65)	(6,492)
Cost at end of year	47,046	45,246
Accumulated depreciation at beginning of year	30,475	33,201
Depreciation for the year	3,178	3,754
Disposals	(56)	(6,480)
Accumulated depreciation at end of year	33,597	30,475
Carrying amount at end of year	13,449	14,771
Other computer hardware		
Cost at beginning of year	3,281	4,594
Additions	513	906
Disposals	(659)	(2,219)
Cost at end of year	3,135	3,281
Accumulated depreciation at beginning of year	2,307	3,725
Depreciation for the year	678	712
Disposals	(562)	(2,130)
Accumulated depreciation at end of year	2,423	2,307
Carrying amount at end of year	712	974
Draw equipment		
Cost at beginning of year	501	501
Additions	100	-
Disposals	(276)	-
Cost at end of year	325	501
Accumulated depreciation at beginning of year	501	501
Depreciation for the year	13	-
Disposals	(276)	-
Accumulated depreciation at end of year	238	501
Carrying amount at end of year	87	-
Furniture and fittings		
Cost at beginning of year	1,117	1,218
Additions	6	330
Disposals	(36)	(431)
Cost at end of year	1,087	1,117
Accumulated depreciation at beginning of year	718	981
Depreciation for the year	105	108
Disposals	(32)	(371)
Accumulated depreciation at end of year	791	718
Carrying amount at end of year	297	400

	30/06/16 \$000	30/06/15 \$000
Motor vehicles		
Cost at beginning of year	764	847
Additions	343	253
Disposals	(328)	(336)
Cost at end of year	779	764
Accumulated depreciation at beginning of year	376	441
Depreciation for the year	200	196
Disposals	(256)	(261)
Accumulated depreciation at end of year	320	376
Carrying amount at end of year	459	388
Office equipment		
Cost at beginning of year	678	750
Additions	48	88
Disposals	(476)	(160)
Cost at end of year	250	678
Accumulated depreciation at beginning of year	561	689
Depreciation for the year	41	30
Disposals	(472)	(158)
Accumulated depreciation at end of year	130	561
Carrying amount at end of year	120	117
Work in progress		
Cost at beginning of year	1,629	2,307
Additions	488	1,629
Capitalised	(515)	(2,307)
Carrying amount at end of year	1,602	1,629
Total property, plant and equipment	18,172	20,034

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

13. Computer software

	30/06/16 \$000	30/06/15 \$000
In use		
Cost at beginning of year	13,923	11,263
Additions	1,125	2,660
Disposals	(702)	-
Cost at end of year	14,346	13,923
Accumulated amortisation at beginning of year	8,637	7,040
Amortisation for the year	1,433	1,597
Disposals	(701)	-
Accumulated amortisation at end of year	9,369	8,637
Carrying amount at end of year	4,977	5,286
Work in progress		
Cost at beginning of year	561	789
Additions	1,889	561
Capitalised	(513)	(789)
Carrying amount at end of year	1,937	561
Total computer software	6,914	5,847

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

14. Creditors and other payables

	30/06/16 \$000	30/06/15 \$000
Moneys received or receivable for games not drawn at balance date	4,860	3,570
Prize liabilities	48,283	24,173
MyLotto player accounts	4,213	3,424
Trade creditors	9,714	7,888
Payable to the NZ Lottery Grants Board	18,999	2,203
Accrued expenses	10,545	8,593
	96,614	49,851

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 NZ has a bank overdraft facility of \$2 million with Westpac Banking Corporation. The interest rate on the overdraft facility at 30 June 2016, if utilised, was 8.7% per annum (2015: 9.2%).

15. Prize reserve account

	30/06/16 \$000	30/06/15 \$000
Opening balance	15,248	39,001
Amounts transferred based on game sales	49,762	35,961
Interest	960	2,067
Unclaimed prizes over 12 months old	9,974	9,347
Transfers to prize pools	(52,599)	(71,128)
	23,345	15,248

16. Employee entitlements

	30/06/16 \$000	30/06/15 \$000
Annual leave	786	648
	786	648

17. Provision

	30/06/16 \$000	30/06/15 \$000
Provision at the beginning of the year	486	549
Additional provision made during the year	89	50
Charged against the provision	(158)	(113)
Release of the provision during the year	-	-
Provision at end of the year	417	486

There are two components to the provision. They relate to costs of retail upgrades and costs associated with restructuring of the IT and Marketing teams.

	30/06/16 \$000	30/06/15 \$000
The net movement in provision for retail upgrades is as follows:		
Provision at the beginning of the year	436	549
Charged against the provision	(108)	(113)
Provision at end of the year	328	436

These costs relate to the upgrade of Lotto furniture within Lotto NZ's retail network. The provision represents an estimate of the excess stock of the prior model of retail furniture that may be obsolete should the latest model of retail furniture be rolled out across the retail network. The new model furniture commenced a rollout in 2015/16 with a further selection of stores planned for upgrade in 2016/17. In the prior year, this provision represented an estimate of the contributions to be made towards the cost for retailers to upgrade to the previous model.

17. Provision - continued

	30/06/16 \$000	30/06/15 \$000
The net movement in provision for restructure is as follows:		
Provision at the beginning of the year	50	-
Additional provision made during the year	89	50
Charged against the provision	(50)	-
Provision at end of the year	89	50

In June 2016, the IT and Marketing teams were restructured, which resulted in creation of new positions within the teams. The main costs associated with this provision relate to recruitment costs for filling these new positions. In the prior year, the Retail team was restructured in June 2015, resulting in new positions being established. These positions were filled during the current year.

18. Equity

	30/06/16 \$000	30/06/15 \$000
Retained earnings		
Opening balance	23,113	23,113
Profit after distribution to NZ Lottery Grants Board	-	-
Balance at end of the year	23,113	23,113
Cash flow hedge reserve		
Opening balance	-	(849)
Movement in fair value of cash flow hedges	-	849
Balance at end of the year	-	-
Total equity	23,113	23,113

Lotto NZ's equity comprises accumulated funds and other reserves.

19. Related party information

Lotto NZ is controlled by the Crown and has transacted with other entities significantly influenced or controlled by the Crown. Related party transactions have not been individually disclosed for transactions with other government agencies when they are on normal terms and conditions consistent with the normal operating arrangements between government agencies.

Related party transactions required to be disclosed

The Gambling Act 2003 requires that Lotto NZ 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 profits were retained in the year ended 30 June 2016 (2015: nil). Distribution in respect of the 2016 financial year amounted to \$204.0 million (2015: \$198.6 million). No funding was provided by the Crown to Lotto NZ.

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

In conducting its activities, Lotto NZ 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 NZ is exempt from income tax by virtue of Section 264 of the Gambling Act 2003.

Lotto NZ 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 2016 totalled \$5.8 million (2015: \$6.8 million). Key entities include Air New Zealand, New Zealand Customs, New Zealand Post, and Television New Zealand.

Key management personnel compensation	30/06/16 \$000	30/06/15 \$000
Salaries and other short-term employee benefits	2,357	2,072
Termination benefits	-	-
	2,357	2,072

Key management personnel include all Board members, the Chief Executive, and the executive team. Eight members were on the executive team at 30 June 2016 (2015: eight members).

20. 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 NZ of all elements of contracted remuneration packages (salaries together with any benefits including motor vehicles, superannuation scheme contributions made by Lotto NZ, 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	
	30/06/16	30/06/15
\$100,000 to \$109,999	6	11
\$110,000 to \$119,999	7	4
\$120,000 to \$129,999	4	4
\$130,000 to \$139,999	2	5
\$140,000 to \$149,999	2	1
\$150,000 to \$159,999	4	4
\$160,000 to \$169,999	3	3
\$170,000 to \$179,999	2	-
\$180,000 to \$189,999	2	1
\$200,000 to \$209,999	1	1
\$250,000 to \$259,999	-	1
\$270,000 to \$279,999	-	1
\$280,000 to \$289,999	1	-
\$290,000 to \$299,999	2	-
\$320,000 to \$329,999	1	-
\$330,000 to \$339,999	-	1
\$440,000 to \$449,999	1	-
\$450,000 to \$459,999	-	1

During the year, three people ceased to be employees and received a total of \$25,674 as compensation or other benefits in relation to the cessation of their employment (2015: seven people, \$97,368). This information is provided pursuant to section 152, subsection 1(d) of the Crown Entities Act 2004.

21. Board members' fees

	30/06/16 \$000	30/06/15 \$000
Miranda Burdon	24	24
Richard Holden (resigned October 2015)	8	24
Richard Janes, Deputy Chair (resigned April 2015)	-	25
Judy Kirk, Chair	47	47
Tony Mossman, Deputy Chair (appointed May 2015)	29	24
Mark Gilbert (appointed May 2015)	24	4
Logan Sears (appointed November 2015)	16	-
Keiran Horne (appointed November 2015)	16	-
	164	148

In November 2015, two new Board members were appointed, increasing the total Board members to six at 30 June 2016 (2015: five).

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

Lotto NZ 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 NZ.

22. Categories of financial assets and liabilities

	30/06/16 \$000	30/06/15 \$000
Loans and receivables		
Cash and cash equivalents	67,515	30,180
Term deposits	38,608	20,551
Debtors and other receivables	7,828	8,161
	113,951	58,892
Financial liabilities measured at amortised cost		
Creditors and other payables	96,614	49,851
Prize reserve account	23,345	15,248
	119,959	65,099

23. Financial instrument risks

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

	30/06/16 \$000	30/06/15 \$000
Counterparties with credit ratings		
Cash at bank and term deposits		
AA-	87,123	43,731
A+	19,000	7,000
Total cash at bank and term deposits	106,123	50,731
Counterparties without credit ratings		
Debtors and other receivables		
Existing counterparty with no defaults in the past	7,828	8,161
Total debtors and other receivables	7,828	8,161

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 NZ'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 NZ, causing Lotto NZ to incur a loss. Due to the timing of cash inflows and outflows, surplus cash is invested with registered banks. Lotto NZ investment policy limits the amount of credit exposure to any one bank.

Liquidity risk

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

24. Capital management

Lotto NZ's capital is its equity, which comprises retained earnings and revaluation reserves. Equity is represented by net assets.

Lotto NZ 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.

25. Events after balance date

There were no significant events subsequent to balance date.

26. Major budget variations

Sales including GST amounted to \$974.2 million, a shortfall against budget of \$23.2 million (or 2.3%).

Our large jackpot games (Lotto Powerball and Big Wednesday) were \$7.5 million (or just under 1%) below budget. After a slightly lower than expected start to sales following the launch of Lotto Powerball on a Wednesday, we have seen an improved sales performance, particularly on Lotto Powerball on a Wednesday. In the last quarter of the financial year we have exceeded budget for Lotto Family (Lotto, Powerball and Strike) by \$39 million (or 19%) due to increased performance and two strong Powerball runs in the quarter.

Instant Kiwi sales were \$10.5 million (or 6.8%) below budget. Instant Kiwi sales have been impacted since the launch of Lotto Powerball on a Wednesday, as we believe some customers have adjusted their weekly Instant Kiwi spend to also play Lotto Powerball on a Wednesday. Furthermore, with the growth of our digital channel through MyLotto, this has had an impact on Instant Kiwi sales as this product is not offered online. Instant Kiwi remains a key product in our portfolio with initiatives currently in progress, or planned, to grow sales in the future.

Daily games sales were \$5.1 million (or 10%) below budget. Like Instant Kiwi, we believe there has been a spend adjustment on daily games so that our customers can also participate in Lotto Powerball on a Wednesday.

Operating expenses for the year came in below budget by \$4.4 million (or 6.7%), a pleasing result delivered principally through efficiencies in marketing and advertising spend.

The resultant net profit of \$204 million was \$3.8 million (or 1.9%) higher than budget.

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Board members

Judy Kirk, ONZM
Chair

Tony Mossman
Deputy Chair

Miranda Burdon

Mark Gilbert

Keiran Horne

Logan Sears

Executive team

Wayne Pickup
Chief Executive

Dan Balasoglou
Chief Financial Officer

Ben Coney
Chief Innovation and Technology Officer

Guy Cousins
Chief Marketing Officer

Kathryn Haworth
General Manager, Strategy

Chris Lyman
Chief Operating Officer

Amie McKinlay
General Manager,
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Emilia Mazur
General Manager,
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