

NZ Lotteries **Annual Report 2009–2010**



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Highlights of the Year

STRONG SALES IN A CHALLENGING ECONOMIC CLIMATE:

Despite the widespread downturn in the retail sector, sales reached \$782.3 million, with profit coming in at \$159 million, our best result ever, apart from last year's exceptional result.

NZ LOTTERY GRANTS BOARD FUNDING BOOSTED:

NZ Lotteries exceeded its budgeted profit transfer of \$152.5 million to the NZ Lottery Grants Board by \$6.5 million. In addition, it was able to provide an extra \$6 million from retained earnings to help fund the NZ 2011 Festival Lottery Fund for the Rugby World Cup. Including \$3.5 million allocated from the profit transfer, total funding made available to the Festival Lottery Fund was \$9.5 million.

INSTANT KIWI'S 20TH BIRTHDAY AND REVAMP:

Instant Kiwi celebrated its 20th birthday in September 2009. The game was then given a fantastic new lease of life in May 2010 with a complete new line-up of tickets and prizes, and a fun new advertising campaign.

BULLSEYE LAUNCHED:

A new daily lottery game, Bullseye, was launched in October.

BIG WEDNESDAY'S TRUMP UP YOUR LIFE PROMOTION:

The first-ever Big Wednesday promotion was a success. The winner won a luxury trip to New York and the opportunity to meet billionaire Donald Trump.

LOTTO'S WISH LIST ADVERTISING CAMPAIGN LAUNCHED:

A new communications campaign for Lotto was launched during the year, based around making Kiwis' wishes come true.

POWERBALL'S BIGGEST-EVER PRIZE:

A \$22.4 million Powerball prize was won by a South Auckland family after a 'lucky feeling' led them to buy their winning ticket from Manukau Pak 'N Save.

ONLINE TICKET CHECKING EXPERIENCE WITH MYLOTTO:

A popular new feature was introduced for the online sales channel, MyLotto, enabling players to watch a replication of the draw and then see the winning numbers circled on their tickets.

RETAILER ENGAGEMENT WITH OUR BUSINESS CONTINUES TO GROW:

Retailers' overall satisfaction with NZ Lotteries increased from 7.6 out of 10 in June 2008 to 8.4 out of 10 in April 2010. Retailers are asked to indicate how satisfied they are with the support they receive from NZ Lotteries. Satisfaction is ranked on a 1 to 10 scale, with 1 being extremely dissatisfied and 10 being extremely satisfied.

WINNING RETAILERS:

Havelock North's Village Lotto & Gifts won the top prize in the retailer incentive programme Game On!
Opunake Post & Lotto won the top In-Store Activity prize.

The Business of The New Zealand Lotteries Commission

OUR PURPOSE - TO PROVIDE SAFE GAMBLING THAT ALLOWS NEW ZEALANDERS TO PLAY AND WIN WHILE CONTRIBUTING MONEY BACK TO NEW ZEALAND COMMUNITIES.

Our Background

The New Zealand Lotteries Commission (NZ Lotteries) was established in 1987 and operates as a Crown Entity under the Gambling Act 2003.

One of the largest Crown-owned trading enterprises, NZ Lotteries employs 116 staff based in Auckland, Wellington and Christchurch, as well as territory representatives in some regions. We have a retail network of more than 1,000 lottery outlets that employs more than 4,000 people, the largest single retail network in New Zealand.

Lotto, our flagship game, has become a national icon. Lotto also incorporates the Winning Wheel, where players have the chance to spin the wheel to win significant prizes on Lotto's live television draw. Alongside Lotto, NZ Lotteries' other products are Lotto Powerball, Lotto Strike, Big Wednesday, Bullseye, Instant Kiwi, and Keno.

NZ Lotteries' profits are transferred to the New Zealand Lottery Grants Board, Te Puna Tahua. The transfers for the year to 30 June 2010 totalled \$165 million. The NZ Lottery Grants Board supports communities by funding a range of social, community, arts, heritage, sports, recreation and health research services and projects. The NZ Lottery Grants Board provides grants to around 5,500 of these organisations and projects each year.

Much of the funding for Sport & Recreation New Zealand, Creative New Zealand and the New Zealand Film Commission also comes from NZ Lotteries' profits via the NZ Lottery Grants Board.

The activities of New Zealand's artists and film-makers provide inspiration for us all and the feats of our high performance athletes engage the nation. Our arts, sporting and community organisations, assisted by the NZ Lottery Grants Board, strengthen the fabric of our society. Together, they play a vital role in creating a vibrant identity for New Zealand and New Zealanders.

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

The integrity of our products, the transparency of our systems, and our commitment to growing our business without adverse social outcomes are the cornerstones of our business practices.

The NZ Lotteries Board

THE MEMBERS OF THE NEW ZEALAND LOTTERIES COMMISSION - WHO ARE APPOINTED BY THE GOVERNMENT - ACT AS NZ LOTTERIES' BOARD OF DIRECTORS AND ARE RESPONSIBLE FOR NZ LOTTERIES' POLICY SETTING AND STRATEGIC DIRECTION.

THE RESPONSIBILITY FOR THE DAY-TO-DAY BUSINESS OPERATIONS OF NZ LOTTERIES IS DELEGATED TO THE CHIEF EXECUTIVE AND OTHER MEMBERS OF THE SENIOR MANAGEMENT TEAM.



Judy Kirk – Chair

Judy Kirk was appointed Chair of the Board in May 2009. She is an experienced director with a wide knowledge of fundraising and business. Mrs Kirk previously chaired the New Zealand Lottery

Grants national welfare committee and the Rotorua regional lottery distribution committee for five years. She also served as President of the New Zealand National Party for seven years and is a Justice of the Peace.



Chris Curley

Chris Curley joined the Board in August 2008 and has had a long career in senior roles within leading New Zealand businesses. He is a former General Manager Corporate and Company

Secretary, and Chief Financial Officer, for Auckland International Airport Ltd. Previously, Mr Curley held senior financial and company secretary positions at Ceramco Corporation Limited. He has a Bachelor of Commerce (Auckland) and is a Fellow of the Chartered Institute of Secretaries and Administrators.



Richard Holden

Christchurch businessman Richard Holden was appointed to the Board in January 2010. Richard is Managing Director of a Christchurch based financial planning firm. He has over 30

years experience in financial services, including front line sales, sales management, regional management and company directorships. He has mentored many successful advisers and managers, and continues to do so. He also has an extensive background in community involvement, including past roles as president of the Marist Rugby Football Club and a member of the general committee of the Canterbury Rugby Union.



Dr Richard Janes

Richard Janes joined the Board in July 2009. Dr Janes is an experienced professional company director with appointments in both the private and public sectors.

His current appointments include Director of Gallagher Holdings Ltd., Telarc -SAI Ltd., LEK Consultancy Pty Ltd., and Chair of the Electricity and Gas Complaints Commission. Dr Janes has an extensive background in management, especially in business development and international brand marketing. He is an Accredited Fellow of the Institute of Directors.

Note: Miranda Burdon has been appointed as a board member with effect from 1 October 2010.

Chair and Chief Executive's Report

It is with great pleasure that we report a strong performance from NZ Lotteries for this year, even without the benefit of the two extraordinary jackpot runs that were experienced in 2008/2009. Both sales and net profit have finished ahead of budget, and ahead of the more comparable financial year of 2007/2008.

Sales for 2009/2010 were \$782.3 million, \$12.3 million (1.6%) ahead of budget. While this result was \$125.4 million (13.8%) down on 2008/2009, it was \$4.3 million (0.6%) ahead of the 2007/2008 sales result.

Net profit was \$159.0 million, \$6.5 million, or 4.3%, above budget. This result is down on 2008/2009 by \$30.3 million, or 16.0%, but is \$2.2 million, or 1.4%, ahead of 2007/2008.

As ever, it is New Zealand communities that benefit from these results, with the \$159 million profit transferred to the NZ Lottery Grants Board to distribute to community, arts, sports and cultural groups throughout New Zealand. Furthermore, an additional \$6 million has been made available from retained earnings to help fund festival activities for the 2011 Rugby World Cup. Including \$3.5 million allocated from the profit transfer, total funding made available to the Festival Lottery Fund was \$9.5 million.

Putting Our Strategies into Action

These strong results have been achieved during a time when many businesses are experiencing a decline in retail sales, due to the challenging economic environment. To have achieved this result during this period, and without the benefit of large jackpot runs, indicates the success of our underlying strategies aimed at improving our business across the board.

Our six growth and business support strategies work together to contribute to NZ Lotteries' overall strategy of 'focused growth'. Through widespread incremental improvement, we have seen a steady lift in base revenues and profit, with sales increasing by more than \$60 million over the last four years, and profits available for transfer to the NZ Lottery Grants Board growing by \$26.4 million.

Providing the direction for our strategies is our vision to 'fire people's imaginations to play and win'. This vision encompasses engaging with our customers and encouraging them to dream through fresh and fun marketing, exciting game offerings, and great in-store and online experiences.

It was a big year for Instant Kiwi, which both celebrated its 20th birthday, and went through a complete revamp in late May. While the impact of the relaunch will be realised more fully in the new financial year, the game's new tickets with their new prize structures offering more prizes, and better prizes, saw an immediate lift in Instant Kiwi sales.

A new advertising campaign kicked off the year for Lotto and Powerball, featuring a childhood 'wish list' turning to reality for one lucky Lotto winner. From prime seats at the rugby to sending his annoying sister on an around-the-world trip, the ad's hero was able to realise all his childhood dreams.

Big Wednesday ran its first-ever prize promotion, offering players the unique prize of a luxury trip to New York and the chance to meet Donald Trump. This prize was considerably different to those offered by Lotto promotions, and very much in keeping with the ultimate lifestyle branding of Big Wednesday. It was clearly an appealing prize as the promotion provided a good boost in sales during its two week run.

NZ Lotteries' new game Bullseye launched in October. This daily game was designed to be a smaller, low-cost game that was easy for customers to understand and play. It has provided a useful injection to sales since its introduction.

Our retail strategy continued to focus closely on working with our retailers to ensure we are delivering a positive in-store experience for our customers. The retailer incentive programme continued to encourage retailers to strive for excellent in-store service and presentation, a new-look in-store design was introduced, and a new website was launched for retailers to access their store's sales and performance data.

MyLotto, is now well established as our online sales channel, completing its second full year of operation. As envisaged when we launched the game, MyLotto has been successful in attracting players who were playing less frequently and were more likely to purchase online rather than from a retail store. New online brand communications were introduced to encourage visits to the MyLotto website, radio communications supported additional promotional activity, and a new ticket checking experience launched during the year successfully brings the anticipation of the live draw to the online environment.

Sales Performance

The Lotto family was again the best performer of all the brands, with sales of \$521.1 million, \$20.9 million, or 4.2%, ahead of budget. This result is a testament to our continuing strong brand advertising and additional sales promotions driving core weekly sales, even without the lure of massive jackpots.

Big Wednesday sales did experience a temporary increase immediately after the large 'must be won' jackpot which was won on the last draw of the 2008/2009 financial year. However, this was not maintained throughout the year, and sales finished at \$117.1 million, \$2.8 million, or 2.3%, below budget.

While the relaunch of Instant Kiwi in late May provided a lift in weekly sales, this was too late in the year to have any great impact on the full year result, which at \$103.6 million, was \$9.5 million, or 8.4%, under budget. This reaffirms previous observations that the 'impulse purchase' nature of this product makes it more susceptible to the economic downturn. We are confident that the changes made to Instant Kiwi during its relaunch will return a much more positive performance in the new financial year.

Once again, Keno sales provided a reliably sound result, with total sales of \$26.2 million, \$3.9 million, or 17.4%, above budget.

A total of \$447 million in prizes became payable to winners throughout New Zealand in 2009/2010.

The balance of the prize reserve fund at the end of the financial year was \$20.5 million, compared to \$32.6 million the year before. The prize reserve fund is used to boost prizes through jackpots and special promotional offers.

Looking Forward

We believe there are opportunities to improve and build our business, even in the current challenging economic environment.

In a market full of competitors for customers' discretionary dollars, it is imperative that our products remain fresh and emotionally engage with our players. Nearly three years since their last major changes, our Lotto and Powerball games are next in line for a significant overhaul. This has been, in part, initiated by the need to account for the increase in GST in October. Plans are in place to ensure the GST increase creates as little impact and confusion for customers as possible by focussing the pricing change on one game, Powerball, rather than the entire portfolio of games.

At the same time, we are taking the opportunity to revamp the Lotto and Powerball games through new brand advertising, a new starting point for Powerball, and a new-look draw. As a mature brand, Lotto requires frequent injections of freshness to maintain its iconic connection with New Zealand.

Instant Kiwi has been successfully relaunched. However, we will not be resting on our laurels. The communications and promotion strategy for this product has only just begun, and will continue throughout the year, focussing on the new tickets and the better prizes now available to customers.

For all of our brands, we will be placing a greater emphasis on publicising winners' stories to reinforce New Zealanders' beliefs that dreams do come true, and on increasing awareness of the good that lottery grants do in our communities.

Reinforcing the emotional connection with players is a key part of our strategy, and the retail in-store experience is a crucial factor in driving this. As such, we will continue to work closely with our retail network to ensure that all customers have a great retail experience. The new year will also see the launch of digital signage into much of the network as we work to provide more emotionally engaging in-store communications with customers.

During the coming year, we will concentrate on improving the existing MyLotto platform for our customers through enhanced usability, experience and accessibility. Both our corporate and player websites will be updated in 2011.

We are budgeting for sales of \$825 million for 2010/2011, an increase of 7.1% on the previous year's budget. The budgeted profit for the year is \$155 million, up 1.6% on the previous year's budget. While this is a challenging target, we believe that both the Instant Kiwi and the Lotto Powerball changes will deliver an increase in sales, which, together with our other strategic initiatives, will enable us to meet our objective.

We would like to acknowledge and thank two NZ Lotteries Board members, whose terms ended in 2009/2010. Laura Humphreys and John Wright have both provided valuable contributions during their tenures with the Commission, and we wish them well for the future.

Lastly, we offer our thanks to NZ Lotteries' staff and retailers for the commitment and effort that went in to the year's achievements. That we were able to produce a strong result in generally tough retail trading conditions is a tribute to their flair, determination, and their commitment to the Lotteries business.



Judy Kirk
Chair



Todd McLeay
Chief Executive

A Look Back at 2009/2010



Instant Kiwi Celebrates 20th Birthday and Gets a Revamp

Right from the word go in 1989, Instant Kiwi has been a highly popular game with New Zealanders – three months' stock selling out in the first three weeks of sales.

Instant Kiwi celebrated its 20th birthday in September 2009 with two birthday tickets, and the return of the old-favourite bungy-jumping fisherman ad from the early 1990s with the addition of a special cameo by 'Mexican Doug', the star of the Instant Kiwi's 'Live a Little' advertising campaign.

But, bigger things were yet to come for Instant Kiwi, with the game getting a complete relaunch in May 2010. An entire new line-up of tickets was introduced with a fresh and eye-catching new look and new prize structures designed to give players more prizes and better prizes.

Along with the new tickets, a whole new advertising campaign was developed to encourage people to change their day in an instant with Instant Kiwi. The energetic and fun ad with its dancing leading man, gymnastic granddads, and spinning dolphins proved immediately popular.

Bullseye Hits the Target

New Zealand made lottery history with the launch of NZ Lotteries' world-first lottery game, Bullseye, in October 2009.

The daily game where players simply choose a number between 000,000 and 999,999, starts with a top prize of \$100,000 but can jackpot up to \$400,000. Since its launch, the top prize has been struck eight times, and has twice gone to a Must Be Won draw.

Big Wednesday's Billionaire Buzz

Big Wednesday players were given a unique prize offering in February 2010, when the first-ever Big Wednesday prize promotion offered a top prize of a trip for four to New York and the opportunity to meet billionaire Donald Trump.

The promotion was a big hit with Big Wednesday players who loved the luxurious prize package, which, in addition to the chance to meet the famous billionaire, included six nights in New York all-expenses-paid, lunch at Trump Grill, private passes to the exclusive Trump National Golf Club in Westchester, a Broadway show, a personal shopper for a day, a photographer to document their special New York moments, and US\$10,000 spending money each. The winner also took home an additional NZ\$100,000 cash as part of their prize.

MyLotto Gains Some Special Guest Stars

A new online ticket checking experience was introduced to MyLotto in July 2009. Players can watch a simulation of the Lotto, Powerball, Big Wednesday and Keno draws online which circles their winning numbers on their ticket as the virtual balls drop out of the draw barrel.

To add even more fun to the new feature, themed graphics were added, linked to particular occasions like Halloween and Christmas. Black cats, pumpkins, mistletoe and Christmas elves, MyLotto players never knew what they may find decorating their screen when they next logged in.

New Top Lotto Retailers are Crowned

Karen and Perry Laurent took over Reylands Magazines Gifts and Lotto in 2009, 18 months down the track and a name change to Village Lotto and Gifts, they have taken out NZ Lotteries' National Overall Game On title for 2009/2010.

The couple, who previously owned award-winning African themed restaurant Mazola in Hastings, say it's simply good customer service that makes the difference.

"We've spent years in hospitality, and we know it's price, product and service that keeps the customer coming back for more, and as we can control the service aspect of it, that's our main focus," says Karen.

The store is a bit of a family affair, with kids Zoey and Mason helping out too, and they've got some ideas on

what to spend their top store \$5,000 prize money on – primarily a jet ski. But Karen has other plans!

"We're off to Australia for a break, and to celebrate our birthdays, so it'll mainly be going towards 'socialising'," she jokes.

Along with the title of NZ Lotteries retail engagement programme Game On's National Overall Winner, Village Lotto and Gifts received a \$5,000 cheque, a trophy presented by Chief Executive Todd McLeay, and a chocolate cake for their top 'gold' store rating – but that wasn't all.

"We had a brilliant day. We also had the Mayor there, media turned up, we had balloons, giveaways and lots of well wishes and visits from our customers!" says Karen.



Game On winner Village Lotto and Gifts. Photo supplied by Hawkes Bay Today.

National In-Store Winners

The In-Store Activity Game On prize rewards the store which carries out the best promotional activities in their store. In 2009/2010, this prize was won by Opunake Post & Lotto, who undertook some fantastic in-store work over the year.

As the overall In-Store Activity winners, Opunake Post & Lotto demonstrated creativity by decorating their store in different themes to match various Lotto promotions. Their efforts resulted in increased sales and inspired their customers.

"We've been involved with Lotto since it first started twenty-two years ago, and we find the in-store promotions help keep Lotto fun," explains Graeme, who owns and operates the store with wife Judy.

For their winning efforts, the team received a special trophy, a cheque for \$2,000 and a chocolate cake to share from NZ Lotteries. They plan on sharing the prize money with their staff and going out to dinner at a local restaurant.

Graeme and the rest of the staff believe their customer banter, friendly service and faith in the Lotto dream of 'winning the big one' is the formula for an award-winning Lotto store.

Prizes

\$447,704,735 WORTH OF PRIZES BECAME PAYABLE TO **24,414,216** WINNERS DURING THE 2009/2010 YEAR. THIRTY-EIGHT PEOPLE BECAME MILLIONAIRES, 19 OF THEM MULTI-MILLIONAIRES, AFTER WINNING THE TOP PRIZES ON OUR GAMES.



Lotto

A total of 2,378,034 winners won \$159,978,476 in Lotto prizes, 126 people won First Division with 15 of them becoming instant millionaires. A further 52 people won prizes worth a total of \$9,636,598 on Lotto's Winning Wheel: there were 50 cash prizes, including two prizes of \$1 million and two his & hers cars. The average prize value won on Winning Wheel during the year was \$185,319.



Lotto Powerball

A total of 162,761 winners won \$94,408,130 in Lotto Powerball prizes. Eleven people won First Division, becoming instant multi-millionaires. Five prizes were worth more than \$5 million, and the largest prize was \$22,206,973, (excluding Lotto First Division), the biggest-ever prize won on Powerball.



Lotto Strike

A total of 7,498,081 winners won \$42,912,710 in Lotto Strike prizes, including 42 Strike Four winners who won a total of \$8,837,843 in prizes.



Big Wednesday

A total of 2,763,541 winners won \$56,810,760 in Big Wednesday prizes. Ten First Division prizes were won, with eight of the winners becoming multi-millionaires. In addition, a total of 53 players won Big Wednesday's Second Chance draw winning prizes totalling \$2,625,000 - 26 people won \$75,000, and 27 people won \$25,000.



Keno

A total of 1,914,278 winners won \$16,018,934 in Keno prizes. There was one top prize of \$250,000 won during the year.



Instant Kiwi

A total of 8,813,291 winners won \$56,967,901 in Instant Kiwi prizes. There were 111 prizes of \$10,000 or more – 8 prizes of \$250,000, 11 prizes of \$100,000, 2 prizes of \$75,000, 36 prizes of \$50,000, 2 prizes of \$40,000, 20 prizes of \$25,000, 2 prizes of \$20,000, and 30 prizes of \$10,000.



Bullseye

A total of 884,125 winners won \$8,346,226 in Bullseye prizes. There were eight First Division prizes won during the year, with three of these winning more than \$200,000. There were also two 'Must Be Won' draws where the First Division prize was not won and the prize went to a Second Division winner. In each of these draws, the Second Division winner won \$410,001.

Promotions

A total of 461 people won promotional prizes in seven Lotto promotions and one Big Wednesday promotion held during the year. The Holiday 100 promotion in July featured 100 tiered prizes; the Father's Day promotion in September gave away ten prizes each of a Holden SSV or a Harley Davidson FLSTF Fatboy; the Wishlist promotion in November had 20 prizes of \$250,000; the Christmas Holiday 200 in December featured 200 tiered prizes; the Endless Summer promotion in January had ten prizes of \$150,000; the Easter Nest Egg promotion had 100 tiered prizes; and the May Mother's Day promotion gave ten winners the choice of a Mustang, a Mercedes, or \$120,000 cash. The one Big Wednesday promotion was held in March and had one winner of a trip for four to New York.



Prize Winners



Family Claims Trump Trip of a Lifetime Prize

A young family claimed their trip of a lifetime to New York with Big Wednesday's Trump Up Your Life special promotion in March after buying their winning ticket via the online channel mylotto.co.nz. The promotion winner, Mr Hancock, is originally from New Plymouth but is currently working overseas in the healthcare industry in Asia.

"I got into a regular buying habit for Big Wednesday in New Zealand, so it has been great to be able to keep buying my tickets online even when working overseas. It was pretty exciting when I got the email notifying me that I had won something big, the whole family were screaming," he said.

Mr Hancock, who is married with two young children, says he has never travelled to New York, and it is a dream come true to have won this prize. The whole family has been online already to check out the Big Apple. *"My kids want to go to the world's biggest toy store, while my wife and I are more interested in visiting some of the top restaurants, and we all want to try New York's famous deep dish pizza."*

The family won six nights in New York, staying at the luxury Trump Soho Hotel, a chauffeur driven limousine for the time they're there, passes to Donald Trump's ultra-exclusive golf course, a personal shopping assistant, tickets to a top Broadway show, a helicopter tour of New York and US\$10,000 spending money each. And of course, the chance to meet Mr Donald Trump himself. *"I've seen Donald Trump on the TV, so it's amazing to think I will meet him in person. It's a once in a lifetime opportunity!"*

Road Trip To Instant Kiwi Riches

A Napier local who took a 'Road Trip' to Wellington is now \$250,000 richer thanks to Instant Kiwi's \$5 Road Trip ticket.

The winner was in Wellington for a few days and bought a \$5 Road Trip ticket. He won \$6 on the ticket but didn't cash it in and instead put it in his wallet and travelled back to his home town of Napier.

Back in Napier, he took it to a Lotto store and thought he'd use the \$6 winnings to buy another Road Trip ticket. His decision proved to be lucrative – when he got home and scratched the Napier ticket – it revealed the top prize of \$50,000 every year for 5 years.

"I kept staring at the ticket and couldn't quite believe my \$6 winnings had turned into \$250,000 in total," said the winner. *"I'm still in shock over winning this much money and it's a great feeling to think I'll have \$50,000 a year paid into my bank account,"* he added.



Bullseye Must be Won Prize

A Dunedin man purchased his first-ever Bullseye ticket and won \$410,001 in a Bullseye Must Be Won draw. The winner, popped into the Alexandra New World to pick up some groceries and his weekly Lotto ticket.

"The New World Lotto operator also encouraged me to have a go at Bullseye, as the prize had to be won that day. I had \$4 change in my pocket so I handed that over, got a couple of tickets back, put them in my wallet and thought nothing more of it."

The winner planned to take some time to think about how to invest his winnings, but one item was already planned. *"We are going to finally get double glazing for our house - we get cold winters in Dunedin so this win will help us to keep warm,"* he said.

Time On Side Of \$250,000 Keno Winner

An Australian visitor to Porirua is a quarter of a million dollars richer thanks to having some time on his hands and trying his luck on Keno for the first time ever.

The happy winner was filling in time before heading into New World Porirua, so bought a few tickets at the Lotto counter. He'd seen Keno on television so says he asked about it, and bought a Keno Dip before putting the ticket away in his wallet and forgetting about it.

It wasn't until he was filling in time again waiting for his wife, that he started cleaning out his wallet, and noticed the Keno ticket. *"I was going to throw it out as it was amongst a load of old dockets - but luckily I noticed, and checked it at another store, and that's when I found out I'd won the top prize."*

Lucky Feeling Puts Powerball Multi-Millionaires on Cloud 9

A shocked Auckland couple turned up at New Zealand Lotteries' offices in Wellington to claim their \$22.4 million Powerball prize after making a special trip to Manukau Pak 'N Save to buy their winning ticket.

The husband had a feeling that he should get his Triple Dip ticket from that shop. *"We were in the area anyway, as we wanted to check out some pillows at the Cloud 9 factory shop, but my husband then insisted we stop at that supermarket to buy a Lotto ticket,"* the winning wife said.

The couple then heard on the radio at 7.00 am the next day that the big prize had been won from Manukau. *"I thought 'oh my God', but we did not actually check the ticket until the afternoon. We must have read those numbers 999 times before we believed that we were the big winners. It takes a while to sink in."*



Lotto Winner Claims \$509,937 Prize In The Nick Of Time

Unbelievably, the holder of an unclaimed \$509,937 Lotto ticket claimed his prize just one day before it expired.

"As far as we're aware, this is the first time a major prize has been claimed the day before its expiry date - if the winner had waited until Monday he would have unfortunately received nothing!" said NZ Lotteries' Chief Executive, Todd McLeay.

The winner had put the ticket in a drawer at home and completely forgot about it. *"It's been a stressful year and I completely forgot I had the ticket, until Saturday when I opened the drawer. It was a bit faded but I noticed the date on it and thought I'd better get down to the shop quick just in case I'd won anything."*



Winning Wheel's Winning Ways

It's been a busy year for the Winning Wheel, with two millionaires and loads of other fantastic prizes spun and won.

In September, Gisborne man, Alastair Jenkins, spun up the top prize of \$1 million on the live draw. Alastair is a sea farer who often works long stints in Australia, and the win meant Alastair and his wife could purchase their own home, and also fulfil Alastair's dream of buying a boat and setting up a charter business.

A big crowd of extended family was at Avalon studios in March to support Nelson minister, Misinale Tokelau, as he won a \$100,000 home upgrade prize. Misinale, whose name translates to 'missionary', is a volunteer minister for the Free Church of Tonga. Misinale and his family are very involved in the church and they enjoy helping others.

And the studios were full again in June, when a syndicate of 15 co-workers from Whanganui won \$100,000. Richard Mead spun for the group, some of whom were at the live draw with friends and family. The 15 members in the syndicate all work for Prospace Designz in Whanganui, and have been a syndicate since October 2009.

Lottery Grants

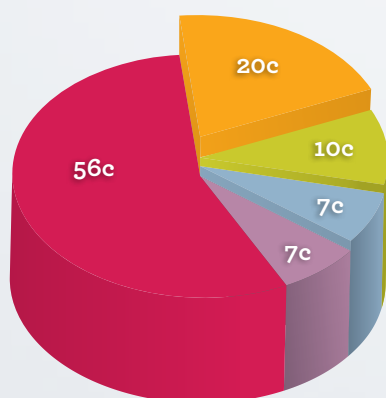
NZ LOTTERIES' PROFITS ARE TRANSFERRED TO THE NZ LOTTERY GRANTS BOARD FOR DISTRIBUTION – AND THE NEW ZEALAND LOTTERIES COMMISSION IS THE NZ LOTTERY GRANTS BOARD'S SOLE FUNDER. OUR PROFITS ARE THEREFORE A MAJOR SOURCE OF FUNDING FOR SPORT AND RECREATION, ARTS AND CULTURE, AND COMMUNITY SERVICES THROUGHOUT NEW ZEALAND.

As well as providing funding for Creative New Zealand, Sport & Recreation New Zealand (SPARC), and the New Zealand Film Commission, the NZ Lottery Grants Board also distributes funding through its eight specialist committees and twelve community committees.

NZ Lotteries is considered a reputable source of small and large scale funding for organisations that work towards improving New Zealand's arts and cultural sectors and communities.

In addition to the amounts set out here, NZ Lotteries is also providing \$9.5 million to help fund the NZ 2011 Festival Lottery Fund. This special fund has been created to finance community events and activities in the lead-up to, and during, the 2011 Rugby World Cup, which is being hosted by New Zealand.

How Lotteries Money is Spent*



For every \$1 from combined sales:

- Prizes
- Operating Costs
- Retailer
- Taxes (includes GST, gaming duty, and problem gambling levy)
- NZ Lottery Grants Board

* Based on the results for the year ended 30 June 2010

NZ Lottery Grants Board Allocations 2010/2011

	\$ TOTAL
STATUTORY BODIES	
Creative New Zealand	23,250,000
New Zealand Film Commission	10,850,000
Sport and Recreation New Zealand	31,000,000
Total Statutory Bodies	65,000,000
COMMUNITY COMMITTEES	
National Community Committee	13,943,875
Northland	1,420,074
Auckland	7,723,886
Waikato	2,881,033
Bay of Plenty/Gisborne	2,360,754
Taranaki	850,732
Hawke's Bay	1,303,310
Manawatu/Whanganui	1,706,717
Wellington/Wairarapa	2,449,093
West Coast/ Nelson-Marlborough	1,411,418
Canterbury/Kaikoura	2,989,861
Otago/Southland	1,817,714
Total Community Committees	40,858,467
SPECIALIST COMMITTEES	
Community Facilities	13,000,000
Community Sector Research	1,750,000
Environment and Heritage	9,148,059
Health Research	3,186,696
Individuals with Disabilities	4,415,317
Marae Heritage and Facilities	6,885,007
Minister's Discretionary Fund	315,000
Outdoor Safety	8,277,941
Applicant GST expenses	600,000
Total Specialist Committees / Funds	47,578,020
Total Distribution Committees / Funds	88,436,487
TOTAL ALLOCATIONS	153,536,487

Source: New Zealand Lottery Grants Board and Department of Internal Affairs

Community Winners



Photo supplied by NZFC.

Boy Charms the Nation

The New Zealand Film Commission (NZFC) invested in nine feature films during the year, with six NZFC financed titles released in New Zealand. One movie, Taika Waititi's massively popular *Boy*, broke local box office records, becoming one of New Zealand's top ten grossing films of all time, not to mention knocking *The World's Fastest Indian* off its perch as the highest-grossing New Zealand film of all time.

Waititi's second feature-length film after his debut *Eagle vs Shark* (though *Boy* was in fact conceived before *Eagle*), *Boy* premiered at the 2010 Sundance

Film Festival (one of just fifteen movies from around the world selected to be shown), and went on to win the Grand Prix, Best Feature Film, Generation Selection award at the 60th Berlin Film Festival.

Throughout the year the NZFC offers professional training and development initiatives for filmmakers by either organising or supporting workshops and seminars. They support the infrastructure of the film industry with grants to Film NZ, the Film Archive, Nga Aho Whakaari, SPADA and the SPADA conference, the NZ Screen Directors Guild, the NZ Writers Guild, Script to Screen and Women in Film & Television. NZFC also sponsor the Qantas Film and Television Awards and supported the NZ Federation of Film Societies along with the New Zealand International Film Festival, the Wairoa Maori Film Festival, the 48 Hour Film Festival and the Show Me Shorts Film Festival.

Tuatara Eggs Found At Wellington Zoo

The first fertile tuatara eggs to be found at Wellington Zoo for over 20 years caused great excitement with the organisation's breeding programme in New Zealand – and for Kiwis in general.

The last time tuataras were successfully raised to independence at the Zoo was in 1988–89, so this find represents a great step forward towards its goal of creating a self-sustaining captive population on-site.

Father Tuatahi and mother Matamuri are the proud parents, but after consultation with experts, it was agreed the best course of action was to transport the eggs to a Tuatara Recovery Plan facility for incubation.

Barbara Blanchard, Animal Registrar Librarian at Wellington Zoo, said: *"The one thing that you learn about tuataras after you've been working with them as long as I have, is that they tend not to do anything in a hurry, so to find eggs is an infrequent but always pleasant surprise."*

The NZ Lottery Grants Board has donated almost \$1 million for various projects to Wellington Zoo over the past 10 years.



Photo supplied by *The Nelson Mail*.

Let's Cook!

A group of Nelson men, aging from late 60's to 86, are learning to cook in a community run programme, and discovering that it's never too late to teach old dogs new tricks!

Many of the men have had to learn to cook after their wives died or moved into residential care, and some just want to brush up on their basic skills.

John Coombs, whose wife died two years ago, says she was the main cook in their household. *"I was in charge of the growing the vegetables, and was allowed to do the vegetable preparation,"* he said.

The men learn to cook, are taught about nutrition and healthy eating, and sit down together at the end to eat what they've made – and it's lots of fun according to Nelson Budget Services advisor Judith Cowley. *"I would do it for free – I just love it. They [the men] are gorgeous."*

Nelson Budget Services is running the courses with Presbyterian Support Services and funding from the NZ Lottery Grants Board.

Getting Creative

As a statutory body, Creative New Zealand received over \$25 million for the 2009/2010 financial year, which went towards arts and artists from a diverse range of projects and organisations.

Along with smaller grants, fellowships and residencies, Creative NZ funding goes to big events like Polyfest – a festival that saw over 90,000 people visit the Manukau Sports Bowl over four days, to celebrate the cultural diversity of the country.

The annual 21st Century Arts Conference was held in Christchurch in June, gathering together over 150 leaders from the arts to focus on audience development and the challenges facing arts organisations. Inspirational keynote speakers explored the essence of an arts organisation through theory and practice, and provided solutions for a sustainable future.

All Whites' Record Breaking World Cup

Just the second New Zealand football team ever to qualify for the finals of the FIFA World Cup, the 2009/2010 All Whites team won the admiration of New Zealanders and international football lovers alike with their gritty and determined efforts in South Africa in June 2010.

SPARC is a major funder for New Zealand Football, and their top men's team, the All Whites, who made their courageous climb into the record books this year. After qualifying with a thrilling win against Bahrain in Wellington in November 2009, the All Whites went in to the World Cup Finals as underdogs and emerged as heroes of the nation, the only team to finish undefeated in the tournament.

On The Road Again

A Waipapa family are on the road again thanks to the NZ Lottery Grants Board and the Kerikeri Lions Club.

Rachel Lodewyk can now take all her three kids into town in a van they were able to buy thanks to the grants – something they haven't been able to do easily as oldest son Oliver has a rare disorder which means he can only get around in an electric wheelchair.

Previously, Rachel had had to carry Oliver when doing errands in town because the wheelchair was too big to fit in their car, and she also had to manage the younger children at the same time – but their new van has changed all that.

"It gives me a lot more freedom and options, and lets us do normal things that others take for granted, things people wouldn't even realise could be a challenge," says Rachel.



Photo supplied by Peter de Graaf, *The Bay Report*.

Organisational Health and Capability

NZ LOTTERIES IS COMMITTED TO BEING A GOOD EMPLOYER AND PROVIDING EQUAL EMPLOYMENT OPPORTUNITIES TO ALL STAFF. ONE OF OUR CORE BUSINESS STRATEGIES IS TO DEVELOP A HIGH PERFORMANCE CULTURE, BASED AROUND EMBEDDING SHARED VALUES, ENHANCING STRONG LEADERSHIP AND COACHING WITHIN THE BUSINESS AND OFFERING BETTER EMPLOYEE ENGAGEMENT.

New organisational values, developed in consultation with a staff focus group, were introduced in late 2006/2007. Following on from this, we have worked to promote and develop them through our internal communications. The values have now been integrated into a redesign of the organisation's performance management programme which was introduced in the 2009/2010 financial year.

The development of management and leadership skills continued to be prioritised, with further talent management and succession planning, as well as leadership training all taking place during the year.

Staff engagement was once again measured through a Gallup Q12 employee survey which commenced in May 2010. The results of the survey will be analysed in the new financial year and internal workshops will be held to utilise the results in improving engagement within the organisation.

Other initiatives by NZ Lotteries in meeting its obligations to manage organisational health and capability include:

- the 'Making the Difference' employee recognition and 'Wellness' programmes;
- annual performance management appraisals, clearer career paths, and training and professional development for all staff;
- internal applications permitted for all job vacancies and holding group inductions for all new staff;
- encouraging a more open and inclusive culture;
- enabling flexible working hours for staff; and
- a focus on improved internal communications ensuring all staff are kept up to date on business performance and strategic issues.

Workplace Profile as at 30 June 2010

	NUMBER	PERCENTAGE
Staff numbers FTE	113.7	
Headcount	116	
GENDER		
Women	58	50%
Men	58	50%
SENIOR MANAGEMENT (Chief Executive and direct reports)		
Women	2	28.6%
Men	5	71.4%
MANAGEMENT (of functional teams, more than 5 reports)		
Women	3	25%
Men	9	75%
AGE		
20 - 29	20	17%
30 - 39	46	40%
40 - 49	30	26%
50 - 59	16	14%
Over 60	4	3%
ETHNICITY DISTRIBUTION		
Asian	6	5%
European	12	10.5%
Indian	7	6%
Maori	2	2%
New Zealander	79	68%
Other	4	3.5%
Pacific	6	5%

Responsible Gambling

ONE OF NZ LOTTERIES' STATUTORY FUNCTIONS UNDER THE GAMBLING ACT 2003 IS TO MAXIMISE PROFITS, SUBJECT TO ENSURING THAT ANY RISKS OF PROBLEM GAMBLING AND UNDER-AGE GAMBLING ASSOCIATED WITH OUR PRODUCTS ARE MINIMISED.

NZ Lotteries and its retail network are committed to conducting all aspects of lottery business in a professional and socially responsible manner. All efforts are made to provide a safe, friendly and responsible play environment that adheres to legislative and regulatory requirements. We have incorporated this commitment to minimise these risks as part of one of NZ Lotteries' core business support strategies.

Unlike other forms of gambling, lottery games are based on the principle of a large pool of players entering a draw for a low entry price. For most players, lottery games are considered to be a bit of fun and light entertainment and lotteries provide a clear net community benefit. There are, however, a very small number of people for whom playing our games can create gambling problems.

Approximately 66% of New Zealand's adult population - more than 2 million New Zealanders - play Lotto at least once each year and 41% play Instant Kiwi.¹ Problem gambling figures for the 2010 year show that NZ Lotteries' products were cited 352 times as a primary mode of gambling by gamblers and affected others who received a full intervention treatment for the first time.² Gamblers and affected others are able to cite up to five primary modes of gambling, including NZ Lotteries' products.

NZ Lotteries supports programmes that help protect people most at-risk through funds raised from the Problem Gambling Levy.

Instant Kiwi is age restricted and NZ Lotteries has put in place a range of measures to minimise the risk of underage people playing this game.



An age-restriction mark appears on the back of all Instant Kiwi tickets and we have an internal harm-minimisation framework for reviewing all Instant Kiwi tickets during their design. We also strive to ensure compliance with the age restriction for playing Instant Kiwi, and this is supported by in-store communications, such as posters and brochures, and our operator training.

Have Fun and Play Responsibly brochures that promote responsible gambling are available from every Lotto shop, and a Responsible Play Code of Practice is also in place for our retailers. Both of these documents can also be downloaded from our corporate website www.mylotto.co.nz.

NZ Lotteries has Level 2 certification from the World Lottery Association under its Responsible Gaming Framework, we participate in problem gambling conferences and research programmes, and we continue to be a member of the Department of Internal Affairs' Stakeholder Reference Group.

Notes:

1. People's Participation in, and Attitudes to, Gambling, 1985 - 2005; Results of the 2005 survey, Department of Internal Affairs.
2. Ministry of Health, 2010. Note, June 2010 figures included in this total are interim figures and still to be finalised.

Benchmarking

NZ LOTTERIES REVIEWS ITS PERFORMANCE EACH YEAR, COMPARING IT WITH THAT OF SIMILAR ORGANISATIONS BOTH IN NEW ZEALAND AND OVERSEAS. THIS SECTION SETS OUT SOME OF THAT INFORMATION.

In December, Deloitte and *New Zealand Management Magazine* provided a measure of the Top 200 New Zealand companies for the past year. This analysis showed that, in 2008/2009, NZ Lotteries would have ranked:

- **4th** for profit after tax - \$189.3 million (11th in the previous year).
- **40th** for turnover - \$907.7 million (39th in the previous year).

International Performance Measures

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

In previous years, NZ Lotteries has compared its performance against those of US state lotteries, using a series of effectiveness and efficiency measures reported in the *Casino Journal*. The *Casino Journal* has not repeated this analysis for 2010, so NZ Lotteries was unable to continue this comparison.

New international comparison measures have been included in NZ Lotteries' Forecast Service Performance for 2011-2013, and will be reported against in the 2010/2011 Annual Report. These efficiency and productivity measures will compare sales and profit as a percentage of GDP, the cents spent to generate \$1 of sales, and profit as a percentage of gaming margin. A selection of lotteries from Australia, North America, and Europe will be used as a benchmarks for NZ Lotteries' performance.

Comparison with Statement of Intent

EACH YEAR WE PUBLISH A STATEMENT OF INTENT IN WHICH WE SET OUT OUR PLANS FOR THE NEXT THREE FINANCIAL YEARS. WE ALSO PUBLISH IN EACH YEAR'S ANNUAL REPORT A COMPARISON BETWEEN THE FINANCIAL PERFORMANCE TARGETS CONTAINED IN THE STATEMENT OF INTENT AND OUR ACTUAL PERFORMANCE.

The following table compares our performance in 2009/2010 against the information in the Statement of Intent for that year.

	ACTUAL	STATEMENT OF INTENT
FINANCIAL PERFORMANCE TARGETS		
a) Total sales (GST inclusive)	\$782.3m	\$770m
b) Net profit	\$159.0m	\$152.5m
c) Paid to NZ Lottery Grants Board	\$165.0m	\$152.5m
OTHER TARGETS		
Unique customer count per month (million)*	2.07	1.77
CAPITAL EXPENDITURE		
Capital expenditure	\$2.0m**	\$5.1m

* Average number of customers claiming they have played any lottery game in the last four weeks. Source: Online survey, representative of the NZ 18+ population, by an independent research company - The Research Agency.


** Various capital expenditure projects were deferred until 2010/2011.

Statement of Service Performance

FOR THE YEAR ENDED 30 JUNE 2010

THE FOLLOWING STATEMENT COMPARES ACTUAL SERVICE PERFORMANCE MEASUREMENT DATA FOR THE YEAR ENDED 30 JUNE 2010 WITH PROJECTIONS FOR THE YEAR SET OUT IN THE STATEMENT OF INTENT FOR 2010-2012, AND ACTUALS FOR THE PREVIOUS YEAR.

	Actual 2009/10 \$000	Budget 2009/10 \$000	Actual 2008/09 \$000
FINANCIAL			
Total sales (\$ million)	782.3	770.0	907.7
Net surplus (\$ million)	159	152.5	189.3
Distribution to the NZ Lottery Grants Board (\$ million)	165 ¹	152.5	189.3
Operating expenses as a percentage of sales	7.1%	7.3%	6.7%
OPERATIONAL			
Unique customer count per month (million)	2.07 ²	1.77	2.17
Number of retail stores at year end	1,038	1,050	1,018
Customers satisfied with their purchase experience	78% ³	88%	81%
Sales system up-time	99.9%	99.7%	100%
Registered players on interactive site (thousand)	134	110	108
Percentage of registered players who purchased one or more tickets in last month	34%	40%	54%
Problem gamblers seeking face-to-face counselling for the first time citing NZ Lotteries' products as their primary gambling mode	n/a ⁴	<100	n/a ⁴
Number of times NZ Lotteries' products are cited as a primary mode of gambling by gamblers and affected others who received full intervention treatment for the first time	352 ⁵	350	240
Convictions for the sale of Instant Kiwi games to persons under 18 years	Nil	Nil	Nil
Draws held on time for Lotto, Big Wednesday, Keno and any new games introduced during the year	Not achieved ⁶	All	Not achieved ⁷
Comply with all provisions of the Gambling, Fair Trading, Commerce, and Consumer Guarantees Acts	Not achieved ⁸	Full	Full
Complaints upheld by the Advertising Standards Authority	Nil	Nil	1 ⁹

- 
1. Distributions for the year totalled \$165 million, comprising the net surplus for the year of \$159 million and an additional \$6 million from retained earnings to help fund festival activities for the 2011 Rugby World Cup.
 2. Average number of customers claiming they have played any lottery game in the last four weeks. Source: Online survey, representative of the NZ 18+ population, by an independent research company – The Research Agency.
 3. Percentage of customers either extremely or quite satisfied with purchase experience. Of the remaining 22%, 20% said they were neither satisfied nor dissatisfied. Source: Online survey, representative of the NZ 18+ population, by an independent research company – The Research Agency. Based on the average scores of January, March and June 2010.
 4. As the Ministry of Health has changed its methodology for collecting primary problem gambling modes, the data is no longer available in this format. NZ Lotteries has, therefore, developed a new primary problem gambling measure.
 5. Actual figures for 2009/2010 include interim data from June 2010 which was not finalised at the time of printing. The increase over the previous year appears to be partly attributable to the Powerball and Big Wednesday ‘Must Be Won’ jackpot runs. There are significant regional variations for which explanations are being sought.
 6. Technical issues caused delays to the following draws during the year: the Big Wednesday draws on 26 August 2009 and 14 April 2010 and the Bullseye draw on 26 December 2009. All issues were resolved and the draws successfully completed. The Big Wednesday draws were completed within fifteen minutes of their scheduled draw times, while the Bullseye draw took place two hours after the scheduled draw time. The integrity of the draws was not affected.
 7. Technical issues caused delays to the following draws during the year: the Big Wednesday draw on 9 July 2008, the Lotto draw on 18 October 2008, and the 6pm Keno draw on 12 January 2009. All issues were resolved and the draws successfully completed within 35 minutes of the scheduled draw times. The integrity of the draws was not affected.
 8. The calculation of some of the prizes in the first Bullseye draw, held on 19 October 2009, was incorrect resulting in 103 prizes being underpaid by a total of \$1,102. This was the result of an error in the gaming software system written by GTech that was not detected by our QA testing. The incident was fully reported to the Minister, officials from his department, and Audit New Zealand. Remedial measures have been put in place.
 9. Complaint 08-525 to the Advertising Standards Complaints Board in September 2008 regarding the Father’s Day Holden and Harleys promotion was upheld. The complaint was that the promotion advertisement said there were ten Harley Davidson Fatboy prizes but the terms and conditions stated that a cash prize equivalent to their retail price would be paid instead. The Board ruled that the advertisement was in breach of Rule 2 of the Code of Ethics, Principle 3 of the Code of Advertising Gambling and Gaming, and Principle 3 Guideline 3(a) of the Code of Advertising Gambling and Gaming. Although we did not agree with the basis of the ASA’s decision, we decided not to appeal. No customers were placed at a disadvantage as a result of the advertising in question. However, we have clarified all of our relevant promotional material and believe that the scope for potential misunderstanding regarding the nature of our prizes has now been minimised.

Success in Meeting Key Strategic Objectives

FOR THE YEAR IN REVIEW, NZ LOTTERIES FOLLOWED SIX KEY STRATEGIES THAT WERE SUPPORTED BY A RANGE OF SPECIFIC BUSINESS OBJECTIVES.

Games

- A new Lotto brand campaign was introduced and seven special prize promotions were held using media to engage and inspire customers.
- Instant Kiwi was completely revamped, with an entire new line-up of tickets, new prize structures, and a new advertising campaign.
- The first-ever Big Wednesday prize promotion was held.
- Bullseye, NZ Lotteries' first new game since 2005, was introduced in October 2009.

Retail

- The retailer incentive programme, Game On!, successfully completed its third year.
- A new in-store design was finalised and the first stores with the new look were fitted in November.
- A new website to enable retailers to obtain sales and performance data online was introduced in July 2009.

Interactive

- A new online ticket checking experience was launched in July 2009.
- New online brand communications were introduced, and radio advertising campaigns were used to increase registrations online.
- A redesign of the corporate and player websites was initiated and will be launched in the new financial year.

Operational Excellence

- A business improvement programme was developed to improve performance and minimise risks.

- A full strategic review of NZ Lotteries' gaming system was undertaken by a specialist from the gaming system provider, with a number of recommendations on improvements enacted.
- All of NZ Lotteries' computers were upgraded to the latest Microsoft operating system, reducing compatibility issues and improving internal network performance.

Culture

- A third Gallup Q12 survey was conducted to measure employee engagement. The results were to be disseminated in the new financial year.
- The 'Making the Difference' and 'Wellness' programmes continued throughout the year.
- A new performance management framework was implemented which actively incorporates the staff values as a performance measure. A new development planning process was also introduced.
- Leadership training was held for staff managing teams, and planning is underway to develop a more comprehensive management and leadership programme.

Corporate Social Responsibility

- Instant Kiwi selling guidelines were updated, and a retailer mystery shopping programme to test compliance with the guidelines was introduced.
- NZ Lotteries was a sponsor of the International Think Tank on Gambling Research, Policy and Practice, run by the Gambling and Addictions Research Centre at Auckland University of Technology and the Gambling Helpline.
- Community benefit messages continued to appear on the bottom of all terminal-printed tickets, and news stories on lottery grants recipients were regularly published on NZ Lotteries' website.

Key Objectives for 2010/2011

Our Goals and Outcomes

NZ Lotteries' vision is:

to fire people's imagination to play and win.

There is one high-level outcome for New Zealand society that we seek to achieve through our own work, and through our key partners, the New Zealand Lottery Grants Board, Creative New Zealand, Sport and Recreation New Zealand, and the New Zealand Film Commission. These groups distribute lottery funding to a wide range of community, social, arts, heritage, sports, health and research groups.

Our Overall Outcome

To generate improved earnings in order to maximise the contribution we make to building strong and sustainable communities.

Financial Objectives

NZ Lotteries' key financial objectives for the 2010/2011 financial year are:

- to achieve gross sales of \$825.0 million
- to achieve a net surplus of \$155.0 million
- to transfer \$155.0 million to the NZ Lottery Grants Board.

Business Strategies for 2010/2011

Growth Strategies

- **Games and Marketing** We aim to lift our emotional engagement with New Zealanders and encourage them to enjoy playing our games more frequently. This includes:
 - ensuring our brands inspire New Zealanders to dream and instil belief in winnability;
 - optimising our products;
 - simplifying our approach;
 - deepening our customer insights; and
 - driving greater value out of our investment in advertising.
- **Retail** We aim to have a network of retailers providing convenient access and excellent service for our customers. This includes:

- making it easy for customers to buy our products;
- ensuring our retail network delivers a great experience to customers; and
- working with retailers to help them improve the performance of their stores.

- **Interactive** We aim to develop and manage a leading online business. This includes:

- enhancing the player experience;
- marketing the channel; and
- progressing new games for growth.

Support Strategies

- **Operational Excellence** We will focus on ensuring a robust, high performance operating system that is supported by appropriate resources, processes, tools and vendors. This includes:

- operational management – ensuring the appropriate measures are in place for core system reliability;
- change management – implementing improvements in the delivery of software through a review of roles and responsibilities, processes, documentation, and communication;
- vendor management – continuing initiatives to improve project delivery and manage costs with IT partners; and
- information management – better managing internal data to improve productivity and enable better collaboration.

- **Culture** We will continue to develop a high performance, values-based culture. This includes:

- revamping the performance management system;
- putting in place a programme to develop leaders; and
- lifting staff engagement.

- **Corporate Social Responsibility** We aim to take a leadership position on corporate social responsibility, with an emphasis on responsible gambling. This includes:

- taking a leadership position on responsible gambling;
- reducing our impact on the environment; and
- promoting the community good from lottery grants.

Instant Kiwi's Better Than Ever



1989

First Instant Kiwi Ticket



1990

First Kiwi Treasures Ticket



1994

First Crossword Ticket



1995

\$5 Team New Zealand



1997

\$1 Kiwi Treasures Te Papa

44%

of people aged 18 or over have played in the last 12 months.

70%

of people aged 18 or over have tried Instant Kiwi at some point.

57%

of all people who play Instant Kiwi every month are female.

51%

of all people who play Instant Kiwi every month are under 50.

The first Instant Kiwi was launched on 14 September 1989. The new scratch product replaced the Golden Kiwi lottery, which had declined in favour with the New Zealand public. The launch of Instant Kiwi was a huge hit with customers, with three months of stock selling out in less than three weeks, generating sales of \$26.1 million.

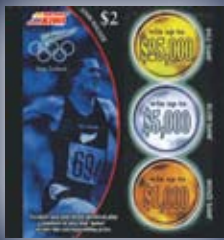
Instant Kiwi has had some iconic tickets over the past two decades that have reflected major events in New Zealand's history – ranging from the Commonwealth and Olympic Games, to the Whitbread Round the World yacht races, Rugby World Cups and even the opening of Te Papa Museum in Wellington.

Since Instant Kiwi was launched in September 1989, New Zealanders have won over \$1 billion in prizes and there have been more than 310 million winners.

Instant Kiwi Facts

- On average, over \$1.1 million is won on Instant Kiwi every week by around 158,000 people across New Zealand.
- On average, 868,000 Instant Kiwi tickets are sold every week and approximately 45 million tickets a year.
- Crosswords are by far the most favourite Instant Kiwi game. Over 40% of all Instant Kiwi sales come from the \$3 and \$5 crossword games combined.
- 39% of all Instant Kiwi sales take place in supermarkets.
- Instant Kiwi is NZ Lotteries' only age restricted game and purchasers must be aged 18 or older.
- Recent NZ Lotteries' research shows that Instant Kiwi players have a positive outlook on life and are optimistic and spontaneous.
- Many Instant Kiwi purchases are spontaneous buys – when players say they are feeling happy, lucky or when they feel like they deserve a treat.





2000

\$2 Olympics



2006

Royal Flush



2009

20th Anniversary



2010

Instant Kiwi relaunched with more prizes and better prizes

Recent research revealed that there are four main types of Instant Kiwi Player:

Challenge players

Enjoy long play games that make you think.

Easy As players

Enjoy giving it a go for some quick and easy light hearted fun.

Break Time players

Enjoy relaxing with long play games that give them the chance to escape for a while.

RapidFire players

Enjoy fast simple games that give them lots of chances to win.

Financial Statements

Statement of Responsibility

FOR THE YEAR ENDED 30 JUNE 2009

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

NZ Lotteries' board is responsible for the preparation of its annual financial statements and statement of service performance, and for the judgements used in their preparation.



Judy Kirk

Chair

22 September 2010

NZ Lotteries' 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 NZ Lotteries' board, the annual financial statements and statement of service performance fairly reflect the financial position and operations of NZ Lotteries.



Richard Janes

Board member

22 September 2010

Audit Report

TO THE READERS OF THE NEW ZEALAND LOTTERIES COMMISSION'S FINANCIAL STATEMENTS AND STATEMENT OF SERVICE PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2010

The Auditor-General is the auditor of New Zealand Lotteries Commission (the Commission). The Auditor-General has appointed me, Kelly Rushton, using the staff and resources of Audit New Zealand, to carry out the audit on her behalf. The audit covers the financial statements and statement of service performance included in the annual report of the Commission for the year ended 30 June 2010.

Unqualified opinion

In our opinion:

- The financial statements of the Commission on pages 28 to 45:
 - comply with generally accepted accounting practice in New Zealand; and
 - fairly reflect:
 - the Commission's financial position as at 30 June 2010; and
 - the results of its operations and cash flows for the year ended on that date.
- The statement of service performance of the Commission on pages 20 to 21:
 - complies with generally accepted accounting practice in New Zealand; and
 - fairly reflects for each class of outputs:
 - its standards of delivery performance achieved, as compared with the forecast standards outlined in the statement of forecast service performance adopted at the start of the financial year; and
 - its actual revenue earned and output expenses incurred, as compared with the forecast revenues and output expenses outlined in the statement of forecast service performance adopted at the start of the financial year.

The audit was completed on 22 September 2010, and 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 the Auditor, and explain our independence.

Basis of opinion

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements and statement of service performance did not have material misstatements, whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements and statement of service performance. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

The audit involved performing procedures to test the information presented in the financial statements and statement of service performance. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Board;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statement and statement of service performance disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and statement of service performance.

We evaluated the overall adequacy of the presentation of information in the financial statements and statement of service performance. We obtained all the information and explanations we required to support our opinion above.

Responsibilities of the Board and the Auditor

The Board is responsible for preparing the financial statements and statement of service performance in accordance with generally accepted accounting practice in New Zealand. The financial statements must fairly reflect the financial position of the Commission as at 30 June 2010 and the results of its operations and cash flows for the year ended on that date. The statement of service performance must fairly reflect, for each class of outputs, the Commission's standards of delivery performance achieved and revenue earned and expenses incurred, as compared with the forecast standards, revenue and expenses adopted at the start of the financial year. The Board's responsibilities arise from the Crown Entities Act 2004 and Gambling Act 1993.

We are responsible for expressing an independent opinion on the financial statements and statement of service performance and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and the Crown Entities Act 2004.

Independence

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the New Zealand Institute of Chartered Accountants.

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

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



K M Rushton
Audit New Zealand
On behalf of the Auditor-General
Wellington, New Zealand

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2010

		30/06/10	30/06/10	30/06/09
		Actual	Budget	Actual
	Note	\$000	\$000	\$000
REVENUES				
Revenues	2	752,707	738,611	872,666
Cost of sales	3	538,375	529,784	622,666
Gross profit		214,332	208,827	250,000
EXPENSES				
Promotion and retail support		24,823	24,425	29,323
Property, plant and equipment depreciation	4	6,308	6,865	6,148
Computer software amortisation		749	1,220	934
Gaming system expenses excluding depreciation		6,327	6,545	6,188
Employee benefits		9,886	9,936	10,319
Other	5	7,238	7,336	7,405
Loss on building revaluation		-	-	402
Total expenses		55,331	56,327	60,719
Profit		159,001	152,500	189,281
Distributions to the New Zealand Lottery Grants Board		165,001	152,500	189,281
Profit/(loss) after distributions to the New Zealand Lottery Grants Board		(6,000)	-	-
Other comprehensive income - revaluation gain		-	-	450
Total comprehensive income		(6,000)	-	450

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 2010

		30/06/10	30/06/10	30/06/09
		Actual	Budget	Actual
	Note	\$000	\$000	\$000
Total comprehensive income		(6,000)	-	450
Equity at beginning of the year		42,163	41,713	41,713
Total comprehensive income		(6,000)	-	450
Equity at the end of the year	18	36,163	41,713	42,163

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

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2010

		30/06/10	30/06/10	30/06/09
		Actual	Budget	Actual
	Note	\$000	\$000	\$000
ASSETS				
Current assets				
Cash and cash equivalents	6,8	77,223	84,279	102,543
Term deposits	7,8	16,745	-	19,778
Debtors and other receivables	9	1,609	6,525	4,844
Prepayments		3,416	3,265	5,203
Inventories	10	1,950	2,700	1,842
Total current assets		100,943	96,769	134,210
Non-current assets				
Property, plant and equipment	11	24,177	25,778	29,798
Computer software	12	2,355	3,603	2,665
Total non-current assets		26,532	29,381	32,463
Total assets		127,475	126,150	166,673
LIABILITIES				
Current liabilities				
Creditors and other payables	13	68,153	63,160	88,514
Annuity prize liabilities	14	700	1,000	850
Employee entitlements	16	697	500	635
Total current liabilities		69,550	64,660	89,999
Long term liabilities				
Annuity prize liabilities	14	1,212	4,000	1,852
Employee entitlements	16	49	30	54
Total long term liabilities		1,261	4,030	1,906
Prize reserve account	15	20,501	15,747	32,605
Total liabilities		91,312	84,437	124,510
EQUITY				
Retained earnings	18	34,549	40,549	40,549
Asset revaluation reserve	17,18	1,614	1,164	1,614
Total equity		36,163	41,713	42,163
Total liabilities and equity		127,475	126,150	166,673

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



Judy Kirk

Chair

22 September 2010



Richard Janes

Board member

22 September 2010

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2010

		30/06/10	30/06/10	30/06/09
		Actual	Budget	Actual
	Note	\$000	\$000	\$000
CASH FLOWS FROM OPERATING ACTIVITIES				
Sales		748,263	731,587	866,938
Net GST (paid) / received		(1,881)	220	2,166
Other receipts		6,323	5,446	6,451
Prize payments		(437,987)	(428,617)	(512,244)
Lottery duty		(46,029)	(43,824)	(49,421)
Retailers' commission		(53,413)	(52,977)	(62,402)
Employee costs		(9,915)	(10,311)	(9,896)
Other payments		(44,207)	(44,784)	(49,205)
Net cash flow from operating activities	19	161,154	156,740	192,387
CASH FLOWS FROM INVESTING ACTIVITIES				
Net (increase) / reduction in term deposits		3,033	-	(19,778)
Sale of property, plant and equipment		154	75	98
Interest received		4,261	1,785	6,676
Purchase of property, plant and equipment		(1,492)	(3,107)	(2,219)
Purchase of computer software		(529)	(1,607)	(165)
Net cash flow from investing activities		5,427	(2,854)	(15,388)
CASH FLOWS FROM FINANCING ACTIVITIES				
Discharge of annuity prize liabilities		(1,120)	(1,225)	(3,300)
Payments to the New Zealand Lottery Grants Board		(190,781)	(164,653)	(161,819)
Net cash flow from financing activities		(191,901)	(165,878)	(165,119)
Net (decrease)/increase in cash balances		(25,320)	(11,992)	11,880
Opening cash and cash equivalents balance		102,543	96,271	90,663
Closing cash and cash equivalents balance	6	77,223	84,279	102,543

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

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

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

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

STATEMENT OF COMMITMENTS

AS AT 30 JUNE 2010

	30/06/10	30/06/09
	\$000	\$000
CAPITAL COMMITMENTS APPROVED AND CONTRACTED		
Property, plant and equipment	121	194
Computer software	37	289
Total capital commitments	158	483
NON-CANCELLABLE OPERATING LEASE COMMITMENTS, PAYABLE		
Not later than one year	377	377
Later than one year and not later than two years	36	377
Later than two years and not later than five years	35	73
Total non-cancellable operating lease commitments	448	827
OTHER NON-CANCELLABLE CONTRACTS		
Not later than one year	13,603	13,645
Later than one year and not later than two years	4,398	2,722
Later than two years and not later than five years	10,088	7,533
Later than five years	53	2,688
Total other non-cancellable contracts	28,142	26,588
Total commitments	28,748	27,898

NZ Lotteries has non-cancellable operating leases for its offices other than the freehold land and building at 117 Khyber Pass Road, Auckland. These lease operating commitments are included in the table above. Further details are as follows:

- Christchurch office - the lease runs until June 2013 with two renewal options of four years each. The annual rental is \$36,415.
- Wellington office - the lease runs until July 2011 with a further right of renewal option for three years. The annual rental is \$340,788

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 2010

There were no contingent liabilities or contingent assets at either 30 June 2010 or 30 June 2009.

Notes to the Financial Statements

1. STATEMENT OF ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2010

REPORTING ENTITY

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

BASIS OF PREPARATION

Accounting compliance

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

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

Basis of measurement

The measurement base applied is historical cost modified by the revaluation of certain assets and liabilities as identified in this statement of accounting policies. The accrual basis of accounting has been used unless otherwise stated.

These financial statements are presented in New Zealand dollars rounded to the nearest thousand.

ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

Budget figures

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

Changes in accounting policies

There have been no changes in accounting policies.

Comparatives

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

Computer software

Computer software that is not integral to the operation of hardware is recorded at purchase cost less any amortisation and impairment losses. Amortisation is charged to the statement of comprehensive income on a straight line basis over the software's estimated 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 is recognised in the statement of comprehensive income.

Contingent assets and contingent liabilities

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

Employee entitlements

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

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

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

Financial instruments

Cash and cash equivalents, and term deposits

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

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

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

Cash 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.

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 statement of comprehensive income in the period the write-down occurs.

Interest

Interest income is recognised using the effective interest rate method.

Interest on cash and cash equivalents and term deposits relating to unpaid prizes and the prize reserve account is credited direct to the prize reserve account. Interest on other cash and cash equivalents and term deposits is credited in the statement of comprehensive income.

Judgements and estimations

In preparing these financial statements, NZ Lotteries has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and judgements are continually evaluated and are based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. There are no estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Leases

Operating leases, where the lessor substantially retains the risks and rewards of ownership, are recognised in a systematic manner over the term of the lease. Leasehold improvements are capitalised and the cost is amortised over the unexpired period of the lease or the estimated useful life of the improvements, whichever is shorter. Lease incentives received are recognised evenly over the term of the lease as a reduction in rental expense.

Prize reserve account

This account is established in accordance with the requirements of the Rules governing the conduct and operation of NZ Lotteries' games. Transfers into this account comprise amounts set aside from the prize pools for games, together with prizes unclaimed after 12 months from the date of the relevant draw or game closure and interest earned on investments representing prize liabilities. Funds accumulated in this account are used exclusively for the purposes of augmenting the prize pools for various draws and games.

Property plant and equipment

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

Revaluations

Land and buildings are revalued with sufficient regularity to ensure that the carrying amount does not differ materially from fair value and at least every 3 years. Fair value is determined from market-based evidence by an independent valuer.

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

Accounting for revaluations

The results of revaluing are credited or debited to an asset revaluation reserve for land and buildings, treated separately. Where this would result in a debit balance in the asset revaluation reserve, this balance is expensed in the statement of comprehensive income. Any subsequent increase on revaluation that off-sets a previous decrease in value recognised in the statement of comprehensive income will be recognised first in the statement of comprehensive income up to the amount previously expensed, and then credited to the revaluation reserve for that class of asset.

Additions

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

Disposals

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are included in the statement of comprehensive income.

Subsequent costs

Costs incurred subsequent to initial acquisition are capitalised only when it is probable that future economic benefits or service potential associated with the item will flow to NZ Lotteries and the cost of the item can be measured reliably.

The costs of day-to-day servicing of property, plant and equipment are recognised in the statement of comprehensive income 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	5 – 7 years
Other computer hardware	3 years
Leasehold improvements	1 – 6 years
Draw equipment	5 years
Furniture and fittings	10 years
Motor vehicles	4 years
Office equipment	5 years
Building	10 – 50 years

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

Revenue and expense recognition

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

Taxation

NZ Lotteries is exempt from income tax by virtue of Section 264 of the Gambling Act 2003. The following taxes are paid by NZ Lotteries:

- Lottery duty of 5.5 cents in the dollar on GST-inclusive sales;
- Problem gambling levy of 0.20 cents in the dollar on GST-inclusive sales less prizes payable (0.34 cents from 1 July 2010);
- Goods and services tax charged on lottery sales less related prizes payable; and
- Fringe benefit tax.

2. REVENUES

	30/06/10 Actual \$000	30/06/10 Budget \$000	30/06/09 Actual \$000
SALES			
Lotto, Lotto Strike and Powerball	521,099	500,210	589,005
Instant Kiwi	103,579	113,045	110,117
Big Wednesday	117,102	119,880	183,100
Keno	26,188	22,305	25,488
Bullseye	14,338	14,560	-
Sales including GST	782,306	770,000	907,710
GST	38,261	38,015	44,161
Sales excluding GST	744,045	731,985	863,549
OTHER REVENUE			
Telecommunications and terminal maintenance cost recovery	5,000	4,976	5,334
Retailers' establishment fees	548	400	480
Interest	2,264	785	2,728
Other	850	465	575
	8,662	6,626	9,117
Total Revenues	752,707	738,611	872,666

3. COST OF SALES

	30/06/10	30/06/10	30/06/09
	Actual	Budget	Actual
	\$000	\$000	\$000
Lottery duty	43,027	42,350	49,924
Problem gambling levy	647	684	796
Retailers' commission & MyLotto transaction fees	53,133	53,031	62,192
Prizes paid and payable	405,564	399,163	466,810
Prize reserve account	30,120	28,705	37,089
Ticket costs	5,157	5,426	4,950
Cost of goods sold to retailers	727	425	905
	538,375	529,784	622,666

4. PROPERTY, PLANT AND EQUIPMENT DEPRECIATION

	30/06/10	30/06/10	30/06/09
	Actual	Budget	Actual
	\$000	\$000	\$000
The total depreciation charge for each class of assets is as follows:			
ON COST			
Gaming computers and associated equipment	4,801	5,421	4,607
Other computer hardware	392	309	419
Leasehold improvements	223	223	223
Draw equipment	58	58	68
Furniture and fittings	111	110	111
Motor vehicles	205	213	202
Office equipment	107	120	107
	5,897	6,454	5,737
ON COST OR VALUATION			
Building (Khyber Pass Road, Auckland)	411	411	411
	6,308	6,865	6,148

5. OTHER EXPENSES

	30/06/10	30/06/10	30/06/09
	Actual	Budget	Actual
	\$000	\$000	\$000
Audit fees for conducting the external audit	148	156	148
Audit fees for scrutineering lottery draws	129	119	128
Board members' fees	139	148	125
Interest	1	4	2
Premises costs	1,081	1,028	1,041
IT & telecommunications	2,353	2,402	2,484
Other	3,387	3,479	3,477
	7,238	7,336	7,405

6. CASH AND CASH EQUIVALENTS

	30/06/10	30/06/09
	\$000	\$000
Cash and bank balance	625	16
Short term deposits	76,444	102,319
Accrued Interest	154	208
	77,223	102,543

7. TERM DEPOSITS

	30/06/10	30/06/09
	\$000	\$000
Term deposits	16,700	19,700
Accrued interest	45	78
	16,745	19,778

8. FAIR VALUE OF INVESTMENTS

	30/06/10	30/06/10	30/06/10	30/06/09	30/06/09	30/06/09
	Carrying amount	Fair value	Purchase	Carrying amount	Fair value	Purchase
	\$000	\$000	yield	\$000	\$000	yield
The fair value of investments (based on quoted market prices) together with their maturity terms and purchase yields are as follows:						
On-call	26,644	26,644	3.40%	6,269	6,269	3.50%
Maturing within 1 year	66,500	66,556	4.02%	115,750	115,957	3.73%
	93,144	93,200	3.84%	122,019	122,226	3.72%
Represented in the statement of financial position as:						
Cash and cash equivalents						
- maturities up to three months from acquisition date	76,444	76,475		102,319	102,469	
Term deposits						
- maturities of more than three months from acquisition date	16,700	16,725		19,700	19,757	
	93,144	93,200		122,019	122,226	

9. DEBTORS AND OTHER RECEIVABLES

	30/06/10	30/06/09
	\$000	\$000
Due from retailers for current games	1,521	4,776
Trade receivables	88	68
	1,609	4,844

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

	30/06/10	30/06/09
	\$000	\$000
Not past due	1,521	4,778
Past due 1-30 days	87	44
Past due 31-60 days	1	13
Past due 61-90 days	-	9
	1,609	4,844

10. INVENTORIES

	30/06/10	30/06/09
	\$000	\$000
Instant Kiwi ticket stock	1,526	1,659
Other stock	424	183
	1,950	1,842

The write-down of inventories held for distribution amounted to \$7,000 as at 30 June 2010 (2009: \$426,000). There have been no reversals of write-downs. No inventories are pledged as security for liabilities.

11. PROPERTY, PLANT AND EQUIPMENT

	30/06/10	30/06/09
	\$000	\$000
LAND – KHYBER PASS ROAD, AUCKLAND		
Valuation	3,750	3,300
Revaluation	-	450
Carrying amount at end of year	3,750	3,750
BUILDING – KHYBER PASS ROAD, AUCKLAND		
Cost or valuation	5,450	7,069
Additions	23	36
Revaluation	-	(1,655)
Valuation at end of year	5,473	5,450
Accumulated depreciation at beginning of year	33	875
Depreciation for the year	411	411
Revaluation	-	(1,253)
Accumulated depreciation at end of year	444	33
Carrying amount at end of year	5,029	5,417
LEASEHOLD IMPROVEMENTS		
Cost at beginning of year	999	1,016
Additions	-	-
Disposals	-	(17)
Cost at end of year	999	999
Accumulated depreciation at beginning of year	545	339
Depreciation for the year	223	223
Disposals	-	(17)
Accumulated depreciation at end of year	768	545
Carrying amount at end of year	231	454
GAMING COMPUTER EQUIPMENT		
Cost at beginning of year	30,767	31,132
Additions	921	35
Disposals	-	(400)
Cost at end of year	31,688	30,767
Accumulated depreciation at beginning of year	13,653	9,440
Depreciation for the year	4,801	4,607
Disposals	-	(394)
Accumulated depreciation at end of year	18,454	13,653
Carrying amount at end of year	13,234	17,114
OTHER COMPUTER HARDWARE		
Cost at beginning of year	2,789	2,310
Additions	251	619
Disposals	(65)	(140)
Cost at end of year	2,975	2,789
Accumulated depreciation at beginning of year	2,006	1,726
Depreciation for the year	392	419
Disposals	(65)	(139)
Accumulated depreciation at end of year	2,333	2,006
Carrying amount at end of year	642	783

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DRAW EQUIPMENT

Cost at beginning of year	665	666
Additions	-	2
Disposals	(4)	(3)
Cost at end of year	661	665
Accumulated depreciation at beginning of year	537	472
Depreciation for the year	58	68
Disposals	(4)	(3)
Accumulated depreciation at end of year	591	537
Carrying amount at end of year	70	128

FURNITURE AND FITTINGS

Cost at beginning of year	1,203	1,218
Additions	12	6
Disposals	(2)	(21)
Cost at end of year	1,213	1,203
Accumulated depreciation at beginning of year	475	384
Depreciation for the year	111	111
Disposals	(2)	(20)
Accumulated depreciation at end of year	584	475
Carrying amount at end of year	629	728

MOTOR VEHICLES

Cost at beginning of year	808	742
Additions	296	327
Disposals	(291)	(261)
Cost at end of year	813	808
Accumulated depreciation at beginning of year	355	355
Depreciation for the year	205	202
Disposals	(223)	(202)
Accumulated depreciation at end of year	337	355
Carrying amount at end of year	476	453

OFFICE EQUIPMENT

Cost at beginning of year	727	763
Additions	20	8
Disposals	(13)	(44)
Cost at end of year	734	727
Accumulated depreciation at beginning of year	524	457
Depreciation for the year	107	107
Disposals	(13)	(40)
Accumulated depreciation at end of year	618	524
Carrying amount at end of year	116	203

WORK IN PROGRESS

Cost at beginning of year	768	-
Additions	-	768
Capitalised	(768)	-
Carrying amount at end of year	-	768

Total property, plant and equipment	24,177	29,798
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NZ Lotteries' freehold land and building are stated at their 31 May 2009 valuation as determined by an independent registered valuer, TelferYoung (Auckland) Ltd, less accumulated depreciation in the case of the building. TelferYoung assessed the current market value as \$9.2 million at 31 May 2009. TelferYoung have confirmed that the fair value at 30 June 2010 does not differ materially from the \$8.8m net book value. There are no restrictions over the title of property, plant and equipment, nor is any property, plant and equipment pledged as security for liabilities.

12. COMPUTER SOFTWARE

	30/06/10	30/06/09
	\$000	\$000
IN USE		
Cost at beginning of year	5,696	5,545
Additions	410	151
Disposals	(58)	-
Cost at end of year	6,048	5,696
Accumulated amortisation at beginning of year	3,099	2,165
Amortisation for the year	749	934
Disposals	(58)	-
Accumulated amortisation at end of year	3,790	3,099
Carrying amount at end of year	2,258	2,597
WORK IN PROGRESS		
Cost at beginning of year	68	-
Additions	97	68
Capitalised	(68)	-
Carrying amount at end of year	97	68
Total computer software	2,355	2,655

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

13. CREDITORS AND OTHER PAYABLES

	30/06/10	30/06/09
	\$000	\$000
Moneys received or receivable for games not drawn at balance date	2,678	4,331
Prize liabilities	41,242	27,216
MyLotto player accounts	1,517	1,442
Trade creditors	7,595	12,023
Payable to the New Zealand Lottery Grants Board	11,001	36,781
Accrued expenses	4,120	6,721
	68,153	88,514

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

NZ Lotteries has a bank overdraft facility as at 30 June 2010 of \$2,000,000 with Westpac Banking Corporation. The interest rate on NZ Lotteries' bank overdraft facility, if utilised, was 8.75% per annum.

14. ANNUITY PRIZE LIABILITIES

	30/06/10	30/06/10	30/06/09	30/06/09
	Amounts	Fair	Amounts	Fair
	payable	value	payable	value
	\$000	\$000	\$000	\$000
Short term liabilities	700	700	850	850
Long term liabilities	1,358	1,212	2,110	1,852
	2,058	1,912	2,960	2,702

15. PRIZE RESERVE ACCOUNT

	30/06/10	30/06/09
	\$000	\$000
Opening balance	32,605	22,658
Amounts transferred based on game sales	30,120	37,089
Interest	1,997	3,948
Unclaimed prizes over twelve months old	11,931	14,323
Transfers to prize pools	(56,152)	(45,413)
	20,501	32,605

16. EMPLOYEE ENTITLEMENTS

	30/06/10	30/06/09
	\$000	\$000
Annual leave	632	577
Long service leave	114	112
	746	689
Current liabilities	697	635
Long term liabilities	49	54
	746	689

17. ASSET REVALUATION RESERVE

	30/06/10	30/06/09
	\$000	\$000
Opening balance	1,614	1,164
Land revaluation	-	450
	1,614	1,614

18. EQUITY

	30/06/10	30/06/09
	Actual	Actual
	\$000	\$000
Retained earnings	34,549	40,549
Asset revaluation reserve	1,614	1,614
	36,163	42,163

NZ Lotteries equity comprises accumulated funds and other reserves.

19. RECONCILIATION OF NET CASH FLOW FROM OPERATING ACTIVITIES WITH NET SURPLUS

	30/06/10	30/06/09
	\$000	\$000
Profit / (loss) after distribution to the New Zealand Lottery Grants Board	(6,000)	-
ADJUSTMENTS FOR NON-CASH ITEMS		
Depreciation of property, plant and equipment	6,308	6,148
Amortisation of computer software	749	934
Building revaluation	-	402
CHANGES IN ASSETS AND LIABILITIES		
Decrease in receivables for current games	3,255	1,720
Increase in trade receivables	(20)	100
Decrease in prepayments	1,787	(1,642)
Increase in stock	(108)	893
Decrease in moneys received or receivable for games	(1,653)	2,278
Increase in prize liabilities	14,026	(15,186)
Decrease in trade creditors	(6,032)	3,803
Decrease in employee entitlements	(67)	211
Decrease in prize reserve account	(12,104)	9,947
INVESTING ACTIVITY ITEMS		
Interest receipts	(4,261)	(6,676)
(Gain) / loss on sale of property, plant and equipment	(57)	(27)
FINANCING ACTIVITY ITEMS		
Annuity prize liabilities	330	201
New Zealand Lottery Grants Board payables	165,001	189,281
Net cash inflow from operating activities	161,154	192,387

20. RESTRICTIONS ON CASH AND CASH EQUIVALENTS, AND TERM DEPOSITS

	30/06/10	30/06/09
	\$000	\$000
Payment of prizes	61,670	56,962
My Lotto player funds	1,629	-
Total restricted amount	63,299	56,962

21. RELATED PARTY INFORMATION

NZ Lotteries is a wholly owned entity of the Crown, and has entered into a number of transactions with other entities within the Crown on an arms-length basis. Where those parties are acting in the course of their normal dealings with NZ Lotteries, related party disclosures have not been made for transactions of this nature.

There were no other related party transactions during the year.

22. KEY MANAGEMENT PERSONNEL COMPENSATION

	30/06/10	30/06/09
	\$000	\$000
Salaries and other short term employee benefits	1,937	1,978
Other long term benefits	7	8
Termination benefits	110	-
	2,054	1,986

Key management personnel include all board members, the Chief Executive, and the senior management team. The size of the senior management team varied between five and six executives during the year. In the previous year, the senior management team consisted of six executives.

23. EMPLOYEE REMUNERATION

This note sets out the number of employees and former employees who received over \$100,000 in total remuneration during the year. Total remuneration includes the annual cost to NZ Lotteries of all elements of contracted remuneration packages (salaries together with any benefits including motor vehicles, superannuation scheme contributions made by NZ Lotteries, 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	
	30/06/10	30/06/09
\$100,000 to \$109,999	5	2
\$110,000 to \$119,999	1	3
\$120,000 to \$129,999	5	6
\$130,000 to \$139,999	1	2
\$140,000 to \$149,999	2	1
\$150,000 to \$159,999	2	3
\$170,000 to \$179,999	1	1
\$210,000 to \$219,999	-	1
\$220,000 to \$229,999	-	2
\$230,000 to \$239,999	1	-
\$240,000 to \$249,999	1	1
\$250,000 to \$259,999	1	-
\$320,000 to \$329,999	-	1
\$330,000 to \$339,999	1	-
\$440,000 to \$449,999	-	1
\$450,000 to \$459,999	1	-

The employees listed above include the Chief Executive whose remuneration was between \$450,000 and \$459,999 (2009: \$440,000 and \$449,999).

During the year, six people who ceased to be employees received a total of \$177,000 as compensation or other benefits in relation to the cessation of employment (2009: seven people \$213,000). This information is provided pursuant to section 152, subsection 1(d) of the Crown Entities Act 2004.

24. BOARD MEMBERS' FEES

	30/06/10	30/06/09
	\$000	\$000
Paddy Austin, Deputy Chair to 8 August 2008	–	3
Chris Curley from 8 August 2008	24	21
John Goulter, Chair to 30 April 2009	–	40
Richard Holden from 1 January 2010	12	–
Laura Humphreys, Deputy Chair to 30 April 2010	24	29
Richard Janes from 1 July 2009	24	–
Judy Kirk, Chair from 1 May 2009	47	8
John Wright to 31 October 2009	8	24
	139	125

25. CATEGORIES OF FINANCIAL ASSETS AND LIABILITIES

	30/06/10	30/06/09
	\$000	\$000
LOANS AND RECEIVABLES		
Cash and cash equivalents	77,223	102,543
Term deposits	16,745	19,778
Debtors and other receivables	1,609	4,844
	95,577	127,165
FINANCIAL LIABILITIES		
Creditors and other payables	68,153	88,514
	68,153	88,514

26. FINANCIAL INSTRUMENT RISKS

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

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

Liquidity risk

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

27. EVENTS AFTER THE BALANCE SHEET DATE

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

28. MAJOR BUDGET VARIATIONS

Sales exceeded budget by \$12.3 million. This was largely due to two Powerball jackpot runs, through to \$22 million in October 2009 and \$12.5 million in June 2010. Interest earnings on investments were \$1.5 million higher than budgeted.

Capital expenditure for the year was lower than planned which resulted in the depreciation and amortisation expenses being under budget by a total of \$1 million. Total expenses were below budget by the same amount.

As a consequence of these fluctuations, profit for the year was \$159 million, \$6.5 million above budget.

An additional \$6 million from retained earnings is being distributed to the NZ Lottery Grants Board to help fund festival activities for the 2011 Rugby World Cup. An amount of \$1.5 million was paid on 30 June 2010. The remaining \$4.5 million is to be paid in installments of \$1.5 million in September 2010, October 2010 and March 2011.

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Board Members

Judy Kirk, Chair

Chris Curley

Richard Holden

Dr Richard Janes

Miranda Burdon (as of 1 October 2010)

Senior Management

Todd McLeay, Chief Executive, Auckland

Warren Salisbury, Chief Financial Officer, Wellington

Karen Jones, Head of Communications and Government Relations, Wellington

Evan Lawrey, Chief Technology Officer, Auckland

Chris Lyman, General Manager Retail Sales, Auckland

Wendy Rayner, Head of Marketing, Auckland



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