

2007 ★ 2008

NZ LOTTERIES ANNUAL REPORT



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WELCOME

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Highlights of the Year



INCREASE IN SALES

Sales reached a new record of \$778 million, up 4.4% on the previous year.

INCREASE IN NZ LOTTERY GRANTS BOARD FUNDING

For the fifth year in a row, NZ Lotteries has increased the amount transferred to the NZ Lottery Grants Board, distributing a record of \$156.8 million, \$9.3 million more than last year.

LOTTO'S 20TH BIRTHDAY

Lotto celebrated its 20th birthday with its biggest-ever promotion. \$5.5 million in extra prizes were won in the special extended draw held on 25 August 2007. The birthday promotion also saw the introduction of Lotto's new tagline, "What Would You Do?".

LARGEST PRIZE EVER

On 5 April 2008, a New Plymouth family made history when they won the largest-ever Powerball jackpot, scooping the massive prize worth just over \$19 million. The winning ticket was sold by Pak 'N Save New Plymouth.

BIGGER AND BETTER POWERBALL

Game changes were made to Powerball in October 2007 which increased the number of balls players choose from 8 to 10, allowing NZ Lotteries to raise the minimum First Division prize pool to \$3 million and increasing the likelihood of longer jackpot runs.

RETAIL NETWORK REFURBISHMENT COMPLETED

All NZ Lotteries' outlets now have the new-look retail format.

POPULAR NEW ADVERTISING

NZ Lotteries launched two highly popular and award-winning advertising campaigns for Lotto and Powerball during 2007/2008. The 'Classic Car' series of ads went to air in August while the 'Old Flame' series followed in February 2008.

NEW TECHNOLOGY

Ticket checker units were installed in retail stores during the year. These popular units enable players to check their tickets for prizes themselves before claiming any prizes from the Lotto counter.

ONLINE SALES LAUNCHED

NZ Lotteries' online sales website, MyLotto, was launched on 26 May 2008.





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 GOAL

Our primary goal is to continue to generate improved earnings so that we are able to maximise the contribution we make to the community. At the same time, the incidence of any problem gambling and under-age gambling associated with our products will be minimised.

We aim to achieve this by creating winning outcomes for all our stakeholders – our customers, our shareholder the Government, our retail network and other business partners, and our staff.

OUR BACKGROUND

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

One of the largest Crown-owned trading enterprises, NZ Lotteries employs approximately 120 staff mainly in Auckland, Wellington and Christchurch, as well as territory representatives in various regions. We have a retail network of around 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, Instant Kiwi, and Keno.

NZ Lotteries' profits are transferred to the New Zealand Lottery Grants Board, *Te Puna Tahua*. 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 3,000 of these organisations and projects each year. The transfers for the year to 30 June 2008 totalled a record \$156.8 million.

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 performances of our high performance athletes have engaged the nation this year. 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.

NZ Lotteries is a New Zealand gambling provider with an established history and a pure community-benefit funding model. As a Crown Entity, the organisation is subject to stringent government reporting and monitoring requirements.

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 Board has two committees: the Audit and Risk Committee and the Remuneration Committee. 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.

JOHN GOULTER DCNZM, JP

Presiding Member

John Goulter, a company director, is Chairman of Ngapuhi Asset Holding Company and a director of the Reserve Bank of New Zealand and of Television New Zealand Limited. He is also Chair of the New Zealand Business and Parliament Trust. In 2002, Mr Goulter was the Deloitte Management Top 200 Executive of the Year and NBR New Zealander of the Year. He was inducted as a laureate into the New Zealand Business Hall of Fame in 2003.

LAURA HUMPHREYS

Deputy Presiding Member

Laura Humphreys joined the Board in April 2007. She was the founder and CEO of the successful Wellington based agency, Red Rocks Advertising, which was named Agency of the Year in 2003. Ms Humphreys has three times been a finalist as Business Woman of the Year and was awarded the New Zealand Trade and Enterprise Outstanding Leader Award in 2004. She is currently co-owner and Director of Pet Angels Ltd, a pet services business based in Wellington.

CHRIS CURLEY

Chris Curley 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, he 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 Accountants.

JOHN WRIGHT

John Wright joined the Board in March 2007. Previous governance experience includes four years on the Board of Transit New Zealand and six years as an MP serving on the Finance and Expenditure Committee. He was Parliamentary Under-Secretary for Revenue, Economic Development and Racing for three years. Recently, he was Presiding Member of Canterbury/Kaikoura Communities Lottery Grants Committee.



Presiding Member's & Chief Executive's Report



It was a year of milestones and record achievements for the New Zealand Lotteries Commission. We began the year celebrating the twentieth birthday of Lotto and concluded it breaking new records for both sales and net profit.

Over the months in between, changes were made to Powerball, the largest-ever New Zealand lottery prize was won, and NZ Lotteries' lottery games became available for purchase for the first time on the Internet.

Sales for 2007/2008 were \$778 million, \$28 million ahead of budget and \$33.1 million, or 4.4%, more than last year's previous record sales of \$744.8 million. There were 52 Saturdays in 2007/2008, and 53 Saturdays in 2006/2007. Adjusting for the extra Saturday in 2006/2007, sales were up \$41.3 million, or 5.6%, on last year.

Net profit was \$156.8 million, \$9.3 million, or 6.3%, above budget and \$4.2 million, or 2.8%, ahead of 2006/2007. This is \$6.2 million, or 4.1%, ahead of last year when adjusted for the extra Saturday in 2006/2007.

These results mean that NZ Lotteries has again been able to increase the amount transferred to the NZ Lottery Grants Board. The new record transfer of \$156.8 million will flow on to directly benefit community, arts, sports and cultural groups throughout New Zealand.

PUTTING OUR STRATEGIES INTO ACTION

Our excellent results show that the strategic direction being pursued by the business is working well. With brands that are strongly established, our growth comes from our ability to 'fire the imaginations of Kiwis to play and win' week in and week out. Our energy in the past year has been directed into keeping our games fresh and interesting and we are committed to creating an

excellent experience for our customers whether they choose to shop in-store or online.

Of the initiatives implemented during the year, the one which has had the most impact on sales, was the revitalisation of Lotto and Lotto Powerball. This was achieved through the introduction of fresh new advertising campaigns based around a new "What Would You Do?" tagline along with game changes successfully made to the structure of Powerball in October.

These game changes increased the number of balls players choose from, which allowed us to raise the minimum First Division prize pool to \$3 million and also increased the likelihood of longer jackpot runs. From the time the changes were instigated, to the end of the financial year, there were three long Powerball jackpot runs, including one which reached nearly \$19 million. Many infrequent players are motivated to purchase tickets by big jackpots and, as a result, Lotto family sales for the year were well ahead of budget.

The culmination of our major retail expansion and refurbishment project was reached during the year, with the retail network also reaching the 1,000 store mark for the first time. All Lotto retail stores are now fitted with the new in-store design. An average of five stores were set up in the new format every week over the past four years, an impressive effort.

Our interactive strategy also reached a significant milestone this year with the launch of our online sales website, MyLotto, at the end of May. Customers can now purchase tickets for our current lottery games, Lotto (including Powerball and Strike), Big Wednesday and Keno on the Internet. Registrations exceeded our expectations with more

than 30,000 players signed up by the end of the financial year. This was due to a number of factors, such as the large amount of publicity achieved around the launch, the large Powerball jackpot on offer in June, and the award-winning MyLotto launch advertising campaign.

SALES PERFORMANCE

It was an excellent year for the Lotto family, with sales of \$523.9 million, more than \$42.9 million, or 8.9%, ahead of budget. As outlined, the result was driven primarily by three large Powerball jackpot runs which saw significant sales lifts, as well as strong promotional activity – most notably Lotto's 20th Birthday and Lotto's Christmas Holiday 100.

The results for the year provide a graphic illustration of the effect that Powerball's jackpotting behaviour can have on our financial position. The two long Powerball runs in the second half of the year meant that sales for the period were 10.3% higher than in the same period in the previous year. It is, however, important to acknowledge that these Powerball runs represent something of a statistical aberration. On average, less than one in seven Powerball jackpot cycles should reach or go beyond \$16 million, so it would be incorrect to assume that such large jackpots will continue during the coming year with such frequency.

The unpredictability of jackpots is also clearly demonstrated by the Big Wednesday sales result. Its First Division jackpot was struck twelve times during 2007/2008, which is five times more than the statistical average of seven (based on the number of entries). With the relatively short jackpot runs, the Big Wednesday First Division prize offer was consistently overshadowed this year by Powerball and sales were a disappointing \$118 million, \$15.5 million below budget. A major refresh of its prizes and advertising is planned to commence early in the new financial year.

It was a mixed year for Instant Kiwi with some flat periods and some excellent sales periods. Final sales were \$111.2 million, \$0.8 million behind budget but \$2 million ahead of 2006/2007 sales. Sales over Christmas and April-May were particularly good due to increased advertising activity and targeting of tickets. However, Instant Kiwi is more likely to be affected by an economic downturn than our other brands due to the 'impulse purchase' nature of the product.

Once again, Keno's loyal customer base has maintained sales for this brand with sales reaching \$24.9 million, \$1.3 million more than last year and \$1.4 million, or 5.8%, above budget. A total of \$417 million in prizes became payable to winners throughout New Zealand in 2007/2008.

The balance of the prize reserve fund at the end of the financial year was \$22.7 million, compared to \$25.2 million the year before. The prize reserve fund is used to boost prizes through jackpots and special prizes.

LOOKING FORWARD

We noted in our report last year that previous business growth had been through delivering a small number of major projects, which were unlikely to be replicated. New business strategies were required to meet the new environment in which we operate.

One year later, it is pleasing to see that the new strategic direction has made a positive impact on the business. We plan a similar strategic approach for the coming year, albeit with some changes to reflect an environment in which consumer spending is more subdued.

After the successful refresh of Lotto last year, the focus of the Games strategy will now turn to revitalising Big Wednesday. A review of the game has been undertaken and a revised First Division prize offering, a new communications campaign, and an updated live draw are planned for launch in October.

We have not introduced a new lottery game since 2005, and so we are aiming to launch a new offering during 2008/2009. We envisage this as the first in a proposed smaller shorter-term game category within our overall game portfolio.

As sales from the retail network are the mainstay of business, we will continue to place great importance on maintaining and improving our relationships with our retailers and on ensuring our customers experience great in-store service.

Now that our online sales channel MyLotto has been launched, the focus of our Interactive strategy is to improve the operation of the website so as to maximise its performance.

We are budgeting for sales of \$770 million for 2008/2009. The actual outcome could well be better, but much will depend on the state of the domestic economy, Powerball and Big Wednesday's jackpotting behaviour and the implementation of our growth strategies during the year.

As ever, none of the achievements or milestones of this past year could have been achieved without the dedication and hard work of NZ Lotteries' staff and retailers. Our deepest thanks to you all.

Lastly, we would like to say farewell to two NZ Lotteries Board members, whose membership ended in 2008. We thank Guy Herbert, who resigned because of other commitments, and Paddy Austin, whose term expired, for their many years of dedicated service to the Board and wish them well for the future.



John Goulter DCNZM, JP
Presiding Member



Todd McLeay
Chief Executive



A Look Back at 2007/2008

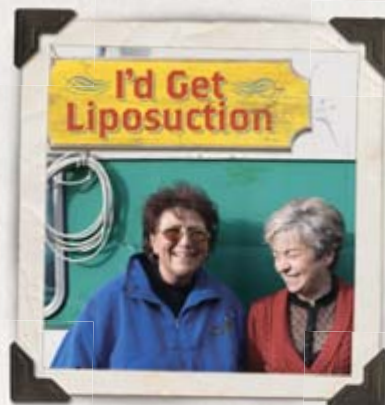


Games

LOTTO TURNS 20 & INVITES NEW ZEALAND TO CELEBRATE!

During August, most of New Zealand was talking about Lotto's 20th Birthday. We celebrated this milestone with a massive extra prize draw – giving away a huge \$5.5 million in extra prizes.

Past Lotto winners were surveyed regarding their winning experiences and what they had spent their money on, and the survey results were shared with the nation – creating great talkability. Lotto stores looked fantastic, with retailers using cakes and balloons to create the birthday atmosphere.



NEW ADS FOR LOTTO AND POWERBALL

A new series of Lotto and Powerball brand advertisements were launched with Lotto's new tagline "What Would You Do?". The 'Classic Car' ads were an immediate hit with their tongue-in-cheek look at what a kiwi family may choose to do with their Lotto winnings. This was followed up by a second series of brand ads, the 'Old Flame' series, which have also proved popular with the New Zealand public and feature the romantic adventures of a war veteran.



INSTANT KIWI'S INNOVATIVE TICKET DESIGNS

Instant Kiwi continued to focus on developing innovative new ticket designs to increase their attractiveness in the in-store dispenser and their appeal to the impulse shopper. One new ticket was printed on holographic paper, while another, featuring a design based around traditional playing cards, was very successful with average weekly sales nearly double the average for that ticket stream.



FANTASTIC PROMOTIONS

A number of successful Lotto sales promotions were held through the year with the Christmas Holiday 100 and Easter Nest Egg promotions proving big hits. There was also a Lotto exclusive – in October, Lotto offered twelve winners and their partners the chance to travel to Sir Richard Branson's private retreat, Necker Island. This prize gave New Zealanders access to a luxury island resort normally reserved for millionaires and A-list celebrities.



Retail

NEW ZEALAND'S TOP LOTTO RETAILER



Aramoho Mags and Lotto has been crowned New Zealand's top Lotto retailer after winning the Game On! retailer incentive programme for 2007/2008, receiving \$10,000 in recognition of their excellent performance. Owner and operator, Gary McElwain, says the Aramoho team worked very hard all year to do well in the points-based programme, and it showed as they excelled in their service, store presentation and product knowledge categories.

"This is a major achievement for a store and we're pleased to be able to reward them accordingly," said NZ Lotteries Chief Executive, Todd McLeay as he presented Gary and his staff with a cheque for \$10,000.

And, in a lucky coincidence, the store also sold a First Division Lotto ticket the same week that it celebrated being named the Lotto retailer of the year – giving them additional local media coverage. Participation in the Game On! programme was voluntary, and we were pleased to see an average of 65% of retailers taking part over the year.

CHECKING YOUR TICKET JUST GOT EASIER

Lotto store customers can now check their tickets for prizes without needing to queue up for the Lotto counter. New self-service ticket checker units were installed in all retail stores this year and have been well received by customers and Lotto retailers alike. The units scan the barcode of the ticket and tell the customer if they've won a prize. Initially, the units can only be used for Lotto family, Big Wednesday and Keno tickets, but Instant Kiwi tickets will also be able to be checked later this year.





TWO NEW WEBSITES LAUNCHED IN 2007/2008

NZ Lotteries launched two new websites during 2007/2008. Our new corporate website was introduced first in August 2007, designed to better reflect the fun and excitement of our brands and provides important information on our games, the draw results, winners and problem gambling advice and our corporate profile.

This was followed in May 2008 by the launch of our online sales website, called MyLotto which is accessed via the corporate website. MyLotto customers must register to use the site and can purchase tickets for the Lotto family, Big Wednesday and Keno games. The website also includes several safeguards and controls aimed at minimising the risk of problem gambling (see Responsible Gambling on page 13).

HAWKES BAY PLAYER FIRST TO WIN BIG ON MYLOTTO

A MyLotto player from Hawkes Bay got a massive shock when they went online to check their ticket one night – and found they had won more than \$2.8 million on Big Wednesday.

“I could not believe it when I saw all my numbers were circled. I actually said to the computer “you cannot be serious” and tapped the screen to make sure it was all real,” said the young winner, aged in their twenties.

“I never thought that I would be able to buy a house in my twenties – or be able to travel overseas when I liked. But now all these things are possible,” the winner said.

The lucky winner had covered heads and tails on their MyLotto Big Wednesday ticket – so they won the First Division prize package of \$2 million, the Aston Martin, the Audi Q7, and a \$250,000 American Express Platinum card, plus the second division prize of \$275,845.



Prizes

\$417,597,034 worth of prizes became payable to 23,710,644 winners during the 2007/2008 year. Twenty-one people became millionaires while a further 17 became multi-millionaires after winning the top prizes on our games.



LOTTO: A total of 2,433,645 winners won \$156,272,680 in Lotto prizes, and NZ Lotteries created 17 Lotto First Division millionaires. A further 52 people won prizes worth a total of \$12,159,117 on Lotto's Winning Wheel: there were 44 cash prizes, including four prizes of \$1 million; three motor homes; two Jaguar XKs; two His and Hers cars and one Mercedes SLK 280; The average prize value won on Winning Wheel during the year was \$233,829.



LOTTO POWERBALL: A total of 159,830 winners won \$77,694,419 in Lotto Powerball prizes. Six people won First Division, becoming instant multi-millionaires. All six prizes were worth more than \$5 million, and the largest prize was \$18,816,031 (excluding Lotto First Division).



LOTTO STRIKE: A total of 7,062,340 winners won \$40,185,715 in Lotto Strike prizes, including 44 Strike Four winners who won a total of \$8,078,368 in prizes. The largest Strike Four prize was \$840,724.



BIG WEDNESDAY: A total of 2,763,660 winners won \$69,492,887 in Big Wednesday prizes. Thirteen people won First Division prizes (including two in the same draw), and eleven of the winners became multi-millionaires. The largest First Division prize was \$8,645,798. In addition, a total of 52 players won Big Wednesday's Second Chance draw winning prizes totalling \$2,557,526 – 29 people won \$25,000, 10 won an Audi A4 and 13 won a Lexus IS250.



KENO: A total of 1,731,812 winners won \$15,085,917 in Keno prizes. There were two top prizes of \$250,000 won during the year.



INSTANT KIWI: A total of 9,559,357 winners won \$58,865,416 in Instant Kiwi prizes. There were 122 prizes of \$10,000 or more – 36 prizes of \$10,000, 21 prizes of \$25,000, 46 prizes of \$50,000, 10 prizes of \$100,000, 3 prizes of \$125,000, 3 prizes of \$150,000, and 3 prizes of \$250,000 (including one of \$50,000 per year for 5 years). There was also one Subaru GT-B Plus.

PROMOTIONS: A total of 415 people won \$16,973,000 in promotional prizes. In the July Winter Warmers promotion, there were five prizes of an Audi A4 Quattro, ten \$30,000 holiday getaways, 15 prizes of \$25,000 cash, 20 Hot Springs spa pools, and 25 Sony home entertainment systems. In August, Lotto's 20th Birthday promotion included three prizes of \$1 million and ten prizes of \$250,000.

There were two promotions in October. Twelve players won prizes of a trip for two to Sir Richard Branson's luxury Necker Island for seven nights plus \$100,000 cash. This was followed by the 1,001 Thank Yous promotion where 100 coupon players won \$1,001 cash. In December, the Christmas Holiday 100 promotion included one prize of \$1 million, two prizes of a \$500,000 Holiday Home package, three hybrid 4WD plus boat packages, four His 'n' Her car packages, 40 \$15,000 getaways, and 50 chilly bins filled with \$10,000 cash.

In the new year, five winners won \$5,000 cash each week for all of 2008; the Easter Nest Egg promotion included one prize of \$500,000, three prizes of \$100,000, six prizes of \$50,000 and 90 prizes of \$10,000; and ten prizes of a Mercedes Benz CLK280 were won in the Mother's Day promotion.

Winners

NEW PLYMOUTH FAMILY STUNNED AT \$19 MILLION WINDFALL

A New Plymouth family was stunned to learn that they had won \$19 million on Lotto Powerball in April 2008. The family had been taking it in turns to buy a weekly Lotto ticket and one son purchased the winning ticket during his weekly shop for groceries at New Plymouth's Pak N Save.

"I did not know Powerball had gone to New Plymouth, and when I saw the \$19 million had been won on Teletext I just thought 'lucky bugger'. Then I checked my numbers on my ticket, and on one of the bottom lines I realised I had a complete match up – I just screamed!" said the son.

Other family members took a while to believe that they had won the top prize which was worth a total of \$19,054,243, made up of \$18,816,031 from Powerball First Division and \$238,212 from Lotto First Division.

One family member said he always wanted to retire by 35, while another family member has always wanted a James Bond car, so he had planned some shopping for an Aston Martin. Another wanted to do some work for charity to share some of their good fortune.

LOWER HUTT COUPLE'S FRIDGE SURPRISE

A little yellow ticket was stuck to a fridge for two months, before a Lower Hutt couple realised it was worth a luxury holiday for two to a Caribbean island plus \$100,000 cash.

NZ Lotteries had been searching for three Necker Island trip winners who were yet to claim their luxury travel packages and the Kelson couple read about the unclaimed prize sold at Park Avenue Bookshop in Lower Hutt in their local paper just before Christmas 2007.

"I was feeding my baby in her high chair when she reached up and grabbed something off the fridge. I realised it was an old Lotto ticket and then started to wonder whether it could be the missing winning voucher," the woman said.

"This has been the most fantastic Christmas present. The \$100,000 will allow us to finish building our house – we will finally get our bathroom done. Plus we have the most amazing holiday to look forward to – I have already booked my parents as our babysitters," she said.

LUCKY CHARMS LEAD TO \$1 MILLION FOR HAWKES BAY ENGINEER

A mock cheque, a wish bone and lucky red underwear worked their magic on David Cooke, a Hawkes Bay engineer who won \$1 million live on Lotto's Winning Wheel in August 2007.

"My wife and I wore lucky red undies to the draw, broke a chicken wish bone standing next to the Winning Wheel before my spin and earlier in the day my wife wrote out a joke million-dollar cheque so the lucky charms must have worked," said David.

"We were so excited after seeing the wheel stop on \$1 million. We would have been happy with whatever we had won but winning \$1 million was just fantastic and capped off a great weekend," he said.

Newlyweds David and Joscelyn were the seventh people to strike the \$1 million top Winning Wheel prize, and their spin was one of just four which struck the prize during 2007/2008. Their winning ticket was purchased from Paper Plus in Waipukurau.





KAITANGATA LOCAL WINS BIG BUT DOESN'T CHECK OUT OF JOB

'Checkout chick' Irene Carson won a \$1.2 million share of Lotto First Division but the Kaitangata woman was back behind the checkouts a day after realising she'd won.

"I think I'm still in shock, to be honest. It's a nice shock though," she says. "I'm single, a widow. If I was home alone, I would probably drive myself crazy. But I reckon I might cut back a bit on the work, you know. I've got a lot more living to do, a lot more nice living."

Irene brought up her three children on the domestic purposes benefit but decided to "pay back" the taxpayer for their financial help over those years by joining the Order of St John and volunteering her services to sports groups in the district.

\$50,000 INSTANT KIWI CROSSWORD WINNER IN ALEXANDRA WAITS FOR THE PLUMBER

An Alexandra woman had to wait three hours before she could go to Alexandra Paper Plus to check her \$50,000 winning Instant Kiwi ticket as there was a plumber coming to fix their toilet.

"I sat down at home to scratch the ticket and relax as I had a bit of a headache. On first glance I thought I had won \$1,000, but the headache wasn't helping my

concentration so I gave the ticket to my husband to check. He counted all the words I had and said 'you haven't won \$1,000 love, you've won \$50,000'!

"I couldn't believe it. I thought there was a catch as you don't just win that much money sitting in your living room. It certainly sorted my headache out," said the winner.

KENO TICKET TAKES A HOLIDAY TO NOUMEA

A Christchurch couple discovered their \$50,000 Keno windfall at 5am, just as they were about to fly to Auckland and then on to Noumea for a family holiday.

With not even enough time to rush into a Lotto shop at the airport, the ticket was consigned to the wallet for the entire holiday.

Finally back in New Zealand, the first stop for the lucky winners was to the nearest Lotto shop they could find to finally find out if their ticket had won the prize they thought it had.

"I checked some other tickets and then handed over the Keno, it was a pretty nervous moment," said the winner. Happily for the winners, the Lotto terminal confirmed the prize and the winners could finally celebrate their luck.



Organisational Health & 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 throughout 2007/2008 to further promote and develop them through our internal communications. A staff intranet has also been introduced to improve communication and information sharing.

The development of management and leadership skills was prioritised during the year, which in turn led into talent management and succession planning taking place during the annual performance management process. Several internal teams have undergone reviews to ensure their structure is a best fit for the future requirements of the business.

Staff engagement was also measured through the introduction of a Gallup Q12 employee survey in July 2007. The results of the survey were analysed through internal workshops with managers, and will provide a benchmark for future surveys. It is planned that the survey will be undertaken every 18 months.

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 2008

	#	%
Staff numbers FTE	115.5	
Headcount	118	

Gender

Women	63	53%
Men	55	47%

Senior Management (Chief Executive and direct reports)

Women	2	29%
Men	5	71%

Management (of functional teams, more than 5 reports)

Women	5	36%
Men	9	64%

Age

20–29	29	25%
30–39	46	39%
40–49	27	23%
50–59	10	8%
over 60	3	3%
Undeclared	3	3%

Ethnicity distribution

New Zealander	58	49%
Maori	7	6%
British/Irish	12	10%
Chinese	4	3%
European	11	9%
Indian	8	7%
Nuiean	2	2%
Samoan	4	3%
Filipino	1	1%
Other	4	3%
Undeclared	7	6%

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.

We have incorporated this commitment to minimise these risks as part of one of NZ Lotteries' core business support strategies. 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.

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 2007 year show that 21, or 1.2%, of the 1,812 gamblers who received face-to-face counselling for the first time cited our products as their primary mode of gambling.²

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

Only one lottery product, 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.

During the year, NZ Lotteries received information regarding the development of the World Lottery Association's new Responsible Gaming Framework, we participated in problem gambling conferences and research programmes, and we continued to be a member of the Ministry of Health and Department of Internal Affairs' joint Stakeholder Reference Group (previously called the Expert Advisory Group).



Player Safety a Priority for MyLotto

The decision for NZ Lotteries to introduce an online sales channel was made only after serious consideration of how we could best meet our obligation to minimise problem gambling. The MyLotto safeguards and controls agreed with the Government include:

- a mandatory registration process designed to limit players to just one account;
- the requirement for players to set their own spending limits (within the maximum);
- maximum spending limits – which works out at an average \$69 a week;
- a self-exclude facility allowing players to exclude themselves from some or all of the online games;
- the provision of problem gambling information and links to problem gambling service providers' websites; and
- direct contact with players who consistently spend to their spending limit for four consecutive months.

¹ *People's Participation in, and Attitudes to, Gambling, 1985 – 2005*; Results of the 2005 survey, Department of Internal Affairs.

² *Problem Gambling Intervention Services in New Zealand: 2007 Service-user statistics*. Public Health Intelligence Monitoring Report No. 18, Ministry of Health, August 2008.



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* provide a measure of the Top 200 New Zealand companies for the past year. This analysis shows that, in 2006/2007, NZ Lotteries would have ranked:

- 10th for profit after tax – \$152.9 million (8th in the previous year).
- 38th for turnover – \$744.8 million (40th 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 its April 2008 issue, *International Gaming and Wagering Business* assesses all 43 US state lotteries on a series of effectiveness and efficiency measures. Instead of the usual per-capita comparisons, *International Gaming and Wagering Business* uses aggregated personal income figures for each US state to calculate the percentage of personal income spent on lottery sales.

The *International Gaming and Wagering Business* approach gives an effectiveness or market-penetration measure that is not distorted by some lottery markets having more citizens with higher levels of disposable income. NZ Lotteries has adopted this methodology and applied it to its own performance as a means of international benchmarking.

NZ LOTTERIES RANKED AS FOLLOWS FOR THE 2006/2007 FINANCIAL YEAR:

- 1. EFFECTIVENESS AND MARKET-PENETRATION MEASURE:** Fiscal 2006/2007 sales as a per cent of US state personal income. *NZ Lotteries' comparative ranking is 9th at 0.61%. (9th in 2005/2006)*
- 2. FISCAL EFFECTIVENESS MEASURE:** Fiscal 2006/2007 government revenue as a per cent of US state personal income. *NZ Lotteries' comparative ranking is 11th at 0.18%. (1st in 2005/2006)*
- 3. EFFICIENCY MEASURE:** Ranked by cents spent to generate one sales dollar in fiscal 2006/2007*. *NZ Lotteries' comparative ranking is 29th at 14.7 cents. (30th in 2005/2006)*
- 4. FISCAL EFFICIENCY MEASURE:** Fiscal 2006/2007 revenue generated for community and government as a per cent of gross revenue (sales minus prizes)*. *NZ Lotteries' comparative ranking is 26th at 68.1%. (28th in 2005/2006)*

* Economies of scale, population density, the percentage of rural and urban outlets, the amount of competition, commission fees, as well as telecommunications, advertising, and office accommodation costs all affect the relative cost structures of different lotteries.

* This measure uses gross revenue figures, and so evens out the effect of lower prize payouts between lotteries.

TECHNICAL NOTES TO THIS PARTICULAR INTERNATIONAL BENCHMARKING COMPARISON:

- US state personal income figures were for the calendar year 2007.
- US state lotteries' revenue and expense results were predominantly for the year to 30 June 2007.
- New Zealand personal income figures are consistent with the definition used for US personal income figures. They were derived from Statistics New Zealand's Household Income and Outlay Account for the year to 31 March 2007.
- NZ Lotteries' revenue and expenses were for the year to 30 June 2007. GST has been treated as being fully paid to the government. However, NZ Lotteries receives credits of approximately \$10 million because of the GST it pays on services from its suppliers. These credits have been treated as being ultimately paid to the government by those suppliers.

Lottery Grants

NZ Lotteries' profits are transferred to the NZ Lottery Grants Board for distribution – and NZ Lotteries 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 ten 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.

HOW LOTTERIES MONEY IS SPENT*



For every \$1 from combined sales:

- Prizes
- Operating Costs
- Retailer Commission
- Taxes (includes GST, gaming duty)
- NZ Lottery Grants Board

* Based on the results for the year ended 30 June 2008

The impact of the revenue raised by NZ Lotteries for the NZ Lottery Grants Board and its agencies can be seen from the allocations for the 2008/2009 year.

NZ LOTTERY GRANTS BOARD ALLOCATIONS 2008/2009

	\$
Statutory Bodies	
Creative New Zealand	22,125,000
NZ Film Commission (NZFC)	9,587,500
NZ Film Archive (via NZFC)	737,500
Sport and Recreation New Zealand	30,890,000
Total Statutory Bodies	63,340,000
Community Committees	
National Community Committee	13,443,875
Northland	1,420,074
Auckland	6,897,768
Waikato	2,605,021
Bay of Plenty/Gisborne	2,335,225
Taranaki	850,732
Manawatu/Whanganui	1,525,045
Hawke's Bay	1,303,310
Wellington/Wairarapa	2,218,101
West Coast/ Nelson-Marlborough	1,411,418
Canterbury/Kaikoura	2,617,120
Otago/Southland	1,804,291
Subtotal	38,431,980
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
Pacific Provider Development Fund	500,000
Significant Projects	16,000,000
Applicant GST expenses	1,000,000
Subtotal	64,478,020
TOTAL	166,250,000

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

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 2007/2008 against the information in the Statement of Intent for that year.

NZ Lotteries exceeded all its projected financial objectives for the 2007/2008 financial year. Sales of \$778 million were \$28 million above budget for the reasons noted in the Presiding Member's and Chief Executive's Report. Our transfer to the NZ Lottery Grants Board also exceeded its target by \$9.3 million.

	ACTUAL	STATEMENT OF INTENT
<i>Financial performance targets</i>		
a) Total sales (GST inclusive)	\$778m	\$750m
b) Net profit	\$156.8m	\$147.5m
c) Paid to NZ Lottery Grants Board	\$156.8m	\$147.5m
<i>Other performance measures</i>		
a) Achievement of the World Lottery Association's Responsible Gaming Framework	2	3
b) Weekly population penetration*	35%	28%
<i>Capital expenditure</i>		
Capital expenditure	\$9.8m	\$9.8m

* Population penetration = proportion of the total population who have purchased NZ Lotteries' products in the last week, taking into account multiple purchases.

CORPORATE CITIZEN AND INTEGRITY PERFORMANCE MEASURES

We also publish in our Statement of Intent several other measures, demonstrating our commitment to integrity in all aspects of our business, and being a good corporate citizen:

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

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

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

Partially Achieved: During the 2007/2008 year, NZ Lotteries complied with the Fair Trading, Commerce, and Consumer Guarantees Acts.

A programming error resulted in the incorrect calculation of division three and four prizes for the Lotto draw conducted on 24 November 2007. The total amount allocated to these divisions was \$340,548 which is \$3,955 less than the amount calculated in accordance with the Lotto Rules 2000 made under the Gambling Act. The amount of the total prize pool for the draw met the requirements of the Rules. Additional procedures have been put in place to prevent a similar error occurring in future.

Ensure that no complaints about NZ Lotteries' advertising are upheld by the Advertising Standards Authority Complaints Board.

Achieved: No complaints about NZ Lotteries' advertising were upheld by the Advertising Standards Authority Complaints Board during 2007/2008.

To monitor problem-gambling counselling national statistics with the aim of ensuring that fewer than 100 problem gamblers who seek counselling for the first time cite NZ Lotteries' products as their primary mode of gambling.

Achieved: The 2007 problem-gambling figures show that 21 (or 1.2%) of the 1,812 gamblers who received face-to-face counselling for the first time cited our products as their primary mode of gambling³.

³ Problem Gambling Intervention Services in New Zealand: 2007 Service-user statistics. Public Health Intelligence Monitoring Report No 18, Ministry of Health, August 2008.



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

- The Lotto draw was refreshed, and new advertising was introduced.
- Powerball was changed to a \$3 million minimum First Division prize pool and the number of balls was increased from 8 to 10.
- Innovative new Instant Kiwi ticket designs were introduced.
- In-store sales promotions for Keno were trialled.
- Research into possible new games continued.

RETAIL

- The new retailer incentive programme, 'Game On!', was introduced.
- Focus groups and a network survey were undertaken to monitor retailer engagement.
- The refurbishment of the network was completed with 104 stores refurbished during the year.
- Digital point of sale signage and new menu board designs were trialled.
- Ticket checker units were installed in retail stores.

INTERACTIVE

- The online sales website, MyLotto was launched.
- The website address for the corporate website was changed to www.mylotto.co.nz and provides access to the online sales website.
- Customer feedback on both websites is monitored and improvements implemented where possible.

KNOWLEDGE

- Corporate business intelligence systems were updated and platforms developed for specific team use within the business.
- A staff intranet was launched.
- A predictive model for retail site sales was put into development.

CULTURE

- A Gallup Q12 survey was conducted and will provide a benchmark for future improvements to employee engagement.
- The 'Making the Difference' and 'Wellness' programmes continued throughout the year.
- An internal communications plan was implemented to further promote and develop the new organisational values introduced in 2006/2007.

RESPONSIBLE GAMBLING

- The design of the new online sales website includes several safeguards to minimise the risk of problem gambling.
- A Responsible Gambling guidebook for retail store operators was developed.
- We signalled our intention to adopt the World Lottery Association's Responsible Gaming Framework.

Key Objectives for 2008/2009

FINANCIAL OBJECTIVES

NZ Lotteries' key financial objectives for the 2008/2009 financial year are:

- to achieve gross sales of \$770 million;
- to achieve a net surplus of \$152.5 million; and
- to transfer \$152.5 million to the Lottery Grants Board.

OUR MISSION

NZ Lotteries sells a unique product set. Our products are intangible in nature and rely on the establishment of a strong emotional connection with our customers. Our underlying mission, and the link between our goals and our business strategies, is therefore:

To fire people's imagination to play and win.

BUSINESS STRATEGIES

The following strategies will be the guiding principles in 2008/2009:

Growth Strategies

Games

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

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

Retail

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

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

Interactive

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

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

Support Strategies

Operational Excellence

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

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

Culture

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

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

Corporate Social Responsibility

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

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

STATEMENT OF SERVICE PERFORMANCE

For the year ended 30 June 2008.

The following statement compares actual service performance measurement data for the year ended 30 June 2008 with projections for the year set out in the Statement of Intent for 2008-2010, and actuals for the previous year.

	ACTUAL 2007/2008	BUDGET 2007/2008	ACTUAL 2006/2007
<i>Financial</i>			
Total sales (\$ million)	778.0	750.0	744.8
Net surplus (\$ million)	156.8	147.5	152.9
Distribution to the NZ Lottery Grants Board (\$ million)	156.8	147.5	147.5
Operating expenses as a percentage of sales	7.3%	7.6%	7.0%
<i>Operational</i>			
Estimated average number of customers per week (million)	1.10	1.17	1.01
Number of retail stores at year end	997	1030	973
Retail stores with "new look" (percentage of total stores)	100%	100%	88.6%
Customers satisfied with purchase experience	86%*	>60%	72%
Sales system up-time	99.92%	99.98%	99.97%
Registered players on interactive site (thousand)	29.5	20	N/a
Total unique weekly visits to interactive site (thousand)	94	90	N/a
Problem gamblers seeking counselling for the first time citing NZ Lotteries' products as their primary gambling mode	21	<100	23
Convictions for the sale of Instant Kiwi games to persons under 18 years	Nil	Nil	Nil
Draws held on time for Lotto, Big Wednesday, Keno and any new games introduced during the year	All	All	All
Comply with all provisions of the Gambling, Fair Trading, Commerce, and Consumer Guarantees Acts	Not achieved**	Full	Full
Complaints upheld by the Advertising Standards Authority	Nil	Nil	Nil

* Based on face-to-face customer interviews conducted in store by an independent research firm. Of the remaining 14%, 10% said they were neither satisfied nor dissatisfied.

** A programming error resulted in the incorrect calculation of division three and four prizes for the Lotto draw conducted on 24 November 2007. The total amount allocated to these divisions was \$340,548 which is \$3,955 less than the amount calculated in accordance with the Lotto Rules 2000. The amount of the total prize pool for the draw met the requirements of the Rules. Additional procedures have been put in place to prevent a similar error occurring in the future.

Financial Statements



STATEMENT OF RESPONSIBILITY

For the year ended 30 June 2008

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' management is responsible for the preparation of its annual financial statements and for the judgements used in their preparation.

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' management, the annual financial statements fairly reflect the financial position and operations of NZ Lotteries.

A handwritten signature in black ink, appearing to read 'John Goulter', with a stylized flourish at the end.

John Goulter DCNZM, JP
Presiding Member
3 October 2008

A handwritten signature in black ink, appearing to read 'Laura Humphreys', with a long horizontal flourish extending to the right.

Laura Humphreys
Deputy Presiding Member
3 October 2008

To the readers of New Zealand Lotteries Commission's financial statements and statement of service performance for the year ended 30 June 2008

The Auditor-General is the auditor of New Zealand Lotteries Commission (the Commission). The Auditor-General has appointed me, Robert Manktelow, using the staff and resources of Audit New Zealand, to carry out the audit on his 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 2008.

Unqualified Opinion

In our opinion:

The financial statements of the Commission on pages 23 to 41:

- comply with generally accepted accounting practice in New Zealand; and
- fairly reflect:
 - the Commission's financial position as at 30 June 2008; 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 page 20:

- 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 3 October 2008, 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 2008 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 the Gambling Act 2003.

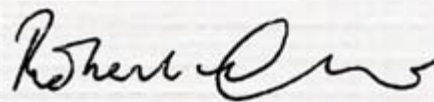
We are responsible for expressing an independent opinion on the financial statements and statement of service performance and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and the Crown Entities Act 2004.

Independence

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

In addition to the audit, Audit New Zealand acts as scrutineer for all the Lotto products, Big Wednesday, 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.



Robert Manktelow
Audit New Zealand
On behalf of the Auditor-General
Wellington, New Zealand

Matters relating to the electronic presentation of the audited financial statements and Statement of Service Performance

This audit report relates to the financial statements and the statement of service performance of the New Zealand Lotteries Commission for the year ended 30 June 2008 included on the New Zealand Lotteries Commission's web-site. The New Zealand Lotteries Commission's Board is responsible for the maintenance and integrity of the New Zealand Lotteries Commission's web site. We have not been engaged to report on the integrity of the New Zealand Lotteries Commission's website. We accept no responsibility for any changes that may have occurred to the financial statements and the statement of service performance since they were initially presented on the website.

The audit report refers only to the financial statements and the statement of service performance named above. It does not provide an opinion on any other information which may have been hyperlinked to or from the financial statements and the statement of service performance. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and statement of service performance and related audit report dated 3 October 2008 to confirm the information included in the audited financial statements and statement of service performance presented on this website.

Legislation in New Zealand governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

INCOME STATEMENT

For the year ended 30 June 2008

		30/06/2008	30/06/2008	30/06/2007
		ACTUAL	BUDGET	ACTUAL
	NOTE	\$000	\$000	\$000
Revenues				
Revenues	2	749,955	721,999	720,009
Cost of sales	3	536,775	517,693	515,377
Gross profit		213,180	204,306	204,632
Expenses				
Promotion and retail support		27,781	27,309	26,006
Property, plant and equipment depreciation	4	5,781	6,477	4,667
Computer software amortisation		903	786	749
Gaming system expenses excluding depreciation		5,000	5,482	4,318
Employee benefits		9,212	9,356	8,609
Other	5	7,682	7,395	7,711
Total expenses		56,359	56,805	52,060
Revaluation of land and building		-	-	324
Profit		156,821	147,501	152,896
Distribution to the New Zealand Lottery Grants Board		156,821	147,501	147,500
PROFIT AFTER DISTRIBUTION TO THE NEW ZEALAND LOTTERY GRANTS BOARD		-	-	5,396

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

STATEMENT OF MOVEMENTS IN EQUITY

For the year ended 30 June 2008

		30/06/2008	30/06/2008	30/06/2007
		ACTUAL	BUDGET	ACTUAL
	NOTE	\$000	\$000	\$000
Profit after distribution to the New Zealand Lottery Grants Board		-	-	5,396
Total recognised revenues and expenses for the year		-	-	5,396
Equity at beginning of the year		41,713	36,317	36,317
Net profit for the year as above		-	-	5,396
EQUITY AT THE END OF THE YEAR		41,713	36,317	41,713

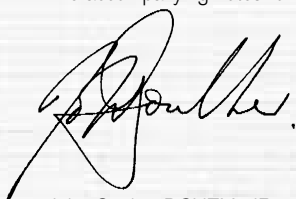
The accompanying notes form part of this statement and should be read in conjunction with it.

BALANCE SHEET

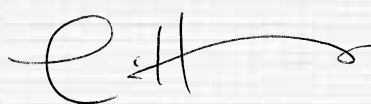
As at 30 June 2008

		30/06/2008	30/06/2008	30/06/2007
		ACTUAL	BUDGET	ACTUAL
	NOTE	\$'000	\$'000	\$'000
Assets				
Current assets				
Cash and cash equivalents	6, 8	90,663	57,153	40,465
Term deposits	7, 8	–	–	42,623
Debtors and other receivables	9	6,664	6,150	9,188
Prepayments		3,561	2,500	3,457
Inventories	10	2,735	2,500	3,452
Total current assets		103,623	68,303	99,185
Non-current assets				
Property, plant and equipment	11	34,168	36,685	33,064
Computer software	12	3,380	–	1,474
Total non-current assets		37,548	36,685	34,538
TOTAL ASSETS		141,171	104,988	133,723
Liabilities				
Current liabilities				
Creditors and other payables	13	70,345	44,960	57,989
Annuity prize liabilities		1,225	1,000	1,302
Provision	14	–	–	1,091
Employee entitlements	17	604	500	525
Total current liabilities		72,174	46,460	60,907
Long term liabilities				
Annuity prize liabilities	15	4,576	7,000	5,840
Employee entitlements	17	50	–	37
Total long term liabilities		4,626	7,000	5,877
Prize reserve account	16	22,658	15,211	25,226
Total Liabilities		99,458	68,671	92,010
Equity		41,713	36,317	41,713
TOTAL LIABILITIES AND EQUITY		141,171	104,988	133,723

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



John Goulter DCNZM, JP
Presiding Member
 3 October 2008



Laura Humphreys
Deputy Presiding Member
 3 October 2008

STATEMENT OF CASH FLOWS

For the year ended 30 June 2008

		30/06/2008	30/06/2008	30/06/2007
		ACTUAL	BUDGET	ACTUAL
	NOTE	\$000	\$000	\$000
<i>Cash flows from operating activities</i>				
Ticket sales		742,746	711,989	700,047
Net GST received		260	100	315
Other receipts		7,295	5,560	8,427
Prize payments		(431,168)	(419,510)	(407,108)
Lottery duty		(42,307)	(41,858)	(40,764)
Retailers' commission		(54,649)	(49,839)	(51,492)
Employee costs		(9,082)	(10,188)	(9,446)
Other payments		(47,267)	(51,754)	(48,212)
Net cash flow from operating activities	18	165,828	144,500	151,767
<i>Cash flows from investing activities</i>				
Net reduction in term deposits		42,623	31,412	27,741
Sale of property, plant and equipment		64	100	163
Interest received		8,068	5,500	7,362
Purchase of property, plant and equipment		(5,984)	(9,243)	(9,639)
Purchase of computer software		(2,781)	(66)	–
Net cash flow from investing activities		41,990	27,703	25,627
<i>Cash flows from financing activities</i>				
Discharge of annuity prize liabilities		(1,225)	500	(1,455)
Payments to the New Zealand Lottery Grants Board		(156,395)	(156,015)	(163,196)
Net cash flow from financing activities		(157,620)	(155,515)	(164,651)
Net increase in cash balances		50,198	16,688	12,743
Opening cash and cash equivalents balance		40,465	40,465	27,722
CLOSING CASH AND CASH EQUIVALENTS BALANCE	6	90,663	57,153	40,465

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

STATEMENT OF COMMITMENTS

As at 30 June 2008

	30/06/2008	30/06/2007
	\$000	\$000
<i>Capital commitments approved and contracted</i>		
Property, plant and equipment	199	1,981
Computer software	–	154
Total capital commitments	199	2,135
<i>Non-cancellable operating lease commitments, payable</i>		
Not later than one year	374	354
Later than one year and not later than two years	374	38
Later than two years and not later than five years	440	114
Later than five years	–	37
Total non-cancellable operating lease commitments	1,188	543
<i>Other non-cancellable contracts</i>		
Not later than one year	11,633	6,299
Later than one year and not later than two years	5,049	4,329
Later than two years and not later than five years	6,292	8,142
Later than five years	4,290	6,457
Total other non-cancellable contracts	27,264	25,227
TOTAL COMMITMENTS	28,651	27,905

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 \$32,979.
- Wellington office – the lease runs until July 2011 with a further right of renewal option for three years. The annual rental is \$340,788.

STATEMENT OF CONTINGENT LIABILITIES AND CONTINGENT ASSETS

As at 30 June 2008

There were no contingent liabilities or contingent assets at either 30 June 2008 or 30 June 2007.

1. Statement of Accounting Policies for the Year Ended 30 June 2008

REPORTING ENTITY

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

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.

These are NZ Lotteries' first financial statements complying with NZ IFRS. An explanation of how the transition to NZ IFRS has affected the reported financial position, financial performance, and cash flows of NZ Lotteries is provided in note 27.

Basis of measurement

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

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

ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and in preparing an opening NZ IFRS balance sheet as at 1 July 2006 for the purposes of the transition to NZ IFRS.

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

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 except those required by NZ IFRS.

Comparatives

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

Computer software

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

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

Contingent assets and contingent liabilities

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

Employee entitlements

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

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

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

Financial instruments

Cash and cash equivalents, and term deposits

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

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

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

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

Annuity prize liabilities

These represent prizes payable for Lotto, Winning Wheel, Instant Kiwi and Big Wednesday games where the payments are spread over a period of greater than 12 months from the date the prizes are claimed. These liabilities are initially measured at fair value 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 income statement in the period the write-down occurs.

Interest

Interest income is recognised using the effective interest rate method.

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

Judgements and estimations

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

Leases

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

Prize reserve account

This account is established in accordance with the requirements of the Rules governing the conduct and operation of NZ Lotteries' games. Transfers into this account comprise amounts set aside from the prize pools for games, together with prizes unclaimed after 12 months from the date of the relevant draw or game closure 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. The net current fair value of the land and building is tested annually for impairment. The book values are then adjusted accordingly.

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.

Any impairment loss is recognised in the income statement.

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 income statement.

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 income statement 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	7 years
Other computer hardware	3 years
Leasehold improvements	1–6 years
Draw equipment	5 years
Furniture and fittings	10 years
Motor vehicles	4 years
Office equipment	5 years
Building - Structure	50 years
- Services	15 years
- Fit out	10 years

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

Provisions

Provisions are recorded at the best estimate of the expenditure required to settle the obligation.

Provisions to be settled beyond twelve months are recorded at their present value.

Revenue and expense recognition

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

Taxation

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

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

2. Revenues

	30/06/2008 ACTUAL \$000	30/06/2008 BUDGET \$000	30/06/2007 ACTUAL \$000
Sales			
Lotto, Lotto Strike and Powerball	523,933	481,000	476,284
Instant Kiwi	111,196	112,000	109,164
Keno	24,871	23,500	23,581
Big Wednesday	117,960	133,500	135,820
Sales including GST	777,960	750,000	744,849
GST	37,680	37,011	36,012
Sales excluding GST	740,280	712,989	708,837
Other revenue			
Telecommunications and terminal maintenance cost recovery	5,005	4,752	4,788
Retailers' establishment fees	623	760	911
Interest	2,569	2,000	2,782
Sundry	1,478	1,498	2,691
	9,675	9,010	11,172
TOTAL REVENUES	749,955	721,999	720,009

In the financial statements for the year ended 30 June 2007, other revenue classified as 'sundry' was stated at \$240,000 rather than \$2,691,000 as stated in the comparatives above. The restatement has been made so that all revenues and costs are disclosed in the financial statements on a gross basis. The adjustment of \$2,451,000 consists of \$2,401,000 in respect of the cost of goods sold to retailers (now included as part of cost of sales) and a loss of \$50,000 on the disposal of property, plant and equipment (now included as part of expenses).

3. Cost of Sales

	30/06/2008 ACTUAL \$000	30/06/2008 BUDGET \$000	30/06/2007 ACTUAL \$000
Lottery duty	42,788	41,250	40,967
Problem gambling levy	680	666	457
Retailers' commission & MyLotto transaction fees	54,412	52,500	52,145
Prizes paid and payable	405,208	400,444	388,455
Prize reserve account	26,789	16,455	25,852
Ticket costs	5,251	4,928	5,100
Cost of goods sold to retailers	1,647	1,450	2,401
	536,775	517,693	515,377

4. Property, Plant and Equipment Depreciation

	30/06/2008 ACTUAL \$000	30/06/2008 BUDGET \$000	30/06/2007 ACTUAL \$000
The total depreciation charge for each class of assets is as follows:			
<i>On cost:</i>			
Gaming computers and associated equipment	4,120	4,734	3,280
Other computer hardware	576	564	538
Leasehold improvements	203	250	1
Draw equipment	72	131	46
Furniture and fittings	108	110	96
Motor vehicles	185	172	188
Office equipment	112	113	115
	5,376	6,074	4,264
<i>On cost or valuation</i>			
Building (Khyber Pass Road, Auckland)	405	403	403
	5,781	6,477	4,667

5. Other Expenses

	30/06/2008 ACTUAL \$000	30/06/2008 BUDGET \$000	30/06/2007 ACTUAL \$000
Audit fees for conducting the external audit	151	141	124
Audit fees for scrutineering lottery draws	141	119	144
Audit fees for other services	–	–	38
Commission members' fees	137	134	122
Interest	7	7	9
Premises costs	1,016	1,031	900
IT & telecommunications	2,332	2,020	2,464
Other	3,898	3,943	3,910
	7,682	7,395	7,711

6. Cash and Cash Equivalents

	30/06/2008 \$000	30/06/2007 \$000
Cash and bank balance	230	29
Short term deposits	89,776	40,247
Accrued Interest	657	189
	90,663	40,465

Cash and bank balance comparative figures have been restated to include cash overdraft and reflect a total cash position.

7. Term Deposits

	30/06/2008 \$000	30/06/2007 \$000
Term deposits	–	42,066
Accrued interest	–	557
	–	42,623

8. Fair Value of Investments

	30/06/2008 CARRYING AMOUNT \$000	30/06/2008 FAIR VALUE \$000	30/06/2008 PURCHASE YIELD %	30/06/2007 CARRYING AMOUNT \$000	30/06/2007 FAIR VALUE \$000	30/06/2007 PURCHASE YIELD %
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The fair value of investments (based on quoted market prices) together with their maturity terms and purchase yields are as follows:

On-call	22,342	22,342	8.25%	3,734	3,734	8.00%
Maturing within 1 year	67,434	67,427	8.75%	78,579	78,567	8.45%
	89,776	89,769	8.63%	82,313	82,301	8.43%

Represented in the balance sheet as:

Cash and cash equivalents						
– maturities up to three months from acquisition date	89,776	89,769		40,247	40,241	
Term deposits						
– maturities of more than three months from acquisition date	–	–		42,066	42,060	
	89,776	89,769		82,313	82,301	

9. Debtors and Other Receivables

	30/06/2008 \$000	30/06/2007 \$000
Due from retailers for current games	6,496	9,014
Trade receivables	168	174
	6,664	9,188

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

	30/06/2008 \$000	30/06/2007 \$000
Not past due	6,547	9,118
Past due 1-30 days	21	(12)
Past due 31-60 days	29	43
Past due 61-90 days	47	19
Past due > 91 days	20	20
	6,664	9,188

10. Inventories

	30/06/2008 \$000	30/06/2007 \$000
Instant Kiwi ticket stock	1,892	1,874
Other stock	843	1,578
	2,735	3,452

The write-down of inventories held for distribution amounted to \$80,101 as at 30 June 2008. There have been no reversals of write-downs. No inventories are pledged as security for liabilities.

11. Property, Plant and Equipment

	30/06/2008 \$000	30/06/2007 \$000
<i>LAND – KHYBER PASS ROAD, AUCKLAND</i>	3,300	3,300
<i>Building structure – Khyber Pass Road, Auckland</i>		
Cost or valuation	2,660	2,660
Valuation at end of year	2,660	2,660
Accumulated depreciation at beginning of year	62	9
Depreciation for the year	53	53
Accumulated depreciation at end of year	115	62
CARRYING AMOUNT AT END OF YEAR	2,545	2,598

Building services – Khyber Pass Road, Auckland

Cost or valuation	2,520	2,520
Additions	44	–
Valuation at end of year	2,564	2,520
Accumulated depreciation at beginning of year	196	28
Depreciation for the year	169	168
Accumulated depreciation at end of year	365	196
CARRYING AMOUNT AT END OF YEAR	2,199	2,324

Building fitout – Khyber Pass Road, Auckland

Cost or valuation	1,820	1,820
Additions	25	–
Valuation at end of year	1,845	1,820
Accumulated depreciation at beginning of year	212	30
Depreciation for the year	183	182
Accumulated depreciation at end of year	395	212
CARRYING AMOUNT AT END OF YEAR	1,450	1,608

Leasehold improvements

Cost at beginning of year	158	351
Additions	863	20
Disposals	(5)	(213)
Cost at end of year	1,016	158
Accumulated depreciation at beginning of year	137	346
Depreciation for the year	203	1
Disposals	(1)	(210)
Accumulated depreciation at end of year	339	137
CARRYING AMOUNT AT END OF YEAR	677	21

Gaming computer equipment

Cost at beginning of year	26,890	25,660
Additions	5,870	3,146
Disposals	(1,628)	(1,916)
Cost at end of year	31,132	26,890
Accumulated depreciation at beginning of year	6,930	5,561
Depreciation for the year	4,120	3,282
Disposals	(1,610)	(1,913)
Accumulated depreciation at end of year	9,440	6,930
CARRYING AMOUNT AT END OF YEAR	21,692	19,960

<i>Other computer hardware</i>		
Cost at beginning of year	2,011	2,339
Additions	302	318
Disposals	(3)	(646)
Cost at end of year	2,310	2,011
Accumulated depreciation at beginning of year	1,152	1,254
Depreciation for the year	576	537
Disposals	(2)	(639)
Accumulated depreciation at end of year	1,726	1,152
CARRYING AMOUNT AT END OF YEAR	584	859
<i>Draw equipment</i>		
Cost at beginning of year	835	659
Additions	–	203
Disposals	(169)	(27)
Cost at end of year	666	835
Accumulated depreciation at beginning of year	552	533
Depreciation for the year	72	46
Disposals	(152)	(27)
Accumulated depreciation at end of year	472	552
CARRYING AMOUNT AT END OF YEAR	194	283
<i>Furniture and fittings</i>		
Cost at beginning of year	1,124	1,205
Additions	166	63
Disposals	(72)	(144)
Cost at end of year	1,218	1,124
Accumulated depreciation at beginning of year	317	350
Depreciation for the year	108	95
Disposals	(41)	(128)
Accumulated depreciation at end of year	384	317
CARRYING AMOUNT AT END OF YEAR	834	807

<i>Motor vehicles</i>		
Cost at beginning of year	687	829
Additions	167	292
Disposals	(112)	(434)
Cost at end of year	742	687
Accumulated depreciation at beginning of year	267	448
Depreciation for the year	185	188
Disposals	(97)	(369)
Accumulated depreciation at end of year	355	267
CARRYING AMOUNT AT END OF YEAR	387	420
<i>Office equipment</i>		
Cost at beginning of year	840	1,329
Additions	49	50
Disposals	(126)	(539)
Cost at end of year	763	840
Accumulated depreciation at beginning of year	470	868
Depreciation for the year	112	115
Disposals	(125)	(513)
Accumulated depreciation at end of year	457	470
CARRYING AMOUNT AT END OF YEAR	306	370
<i>Work in progress</i>		
Cost at beginning of year	514	39
Additions	–	475
Capitalised	(514)	–
Cost at end of year	–	514
Accumulated depreciation at beginning of year	–	–
Depreciation for the year	–	–
Accumulated depreciation at end of year	–	–
CARRYING AMOUNT AT END OF YEAR	–	514
TOTAL PROPERTY, PLANT AND EQUIPMENT	34,168	33,064

NZ Lotteries' freehold land and building are stated at their 31 May 2006 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 \$10.3 million as at 31 May 2006.

The valuers have confirmed that the \$9.49 million net book value at 30 June 2007 remains indicative of the property's current valuation.

Impairment has been assessed by NZ Lotteries and no change has been made to the carrying amount.

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

	30/06/2008	30/06/2007
	\$000	\$000
<i>In use</i>		
Cost at beginning of year	2,427	2,345
Additions	3,118	82
Cost at end of year	5,545	2,427
Accumulated amortisation at beginning of year	1,262	513
Amortisation for the year	903	749
Accumulated amortisation at end of year	2,165	1,262
CARRYING AMOUNT AT END OF YEAR	3,380	1,165
<i>Work in progress</i>		
Cost at beginning of year	309	–
Additions	–	309
Capitalised	(309)	–
CARRYING AMOUNT AT END OF YEAR	–	309
TOTAL COMPUTER SOFTWARE	3,380	1,474

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

	30/06/2008	30/06/2007
	\$000	\$000
Moneys received or receivable for games not drawn at balance date	2,053	1,623
Prize liabilities	42,402	33,980
MyLotto player accounts	632	–
Trade creditors	6,437	7,884
Payable to the New Zealand Lottery Grants Board	9,319	8,893
Accrued expenses	9,502	5,609
	70,345	57,989

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 2008 of \$2,000,000 with Westpac Banking Corporation. The interest rate on NZ Lotteries' bank overdraft facility was 10.50% per annum if utilised.

14. Provision

	30/06/2008	30/06/2007
	\$000	\$000
The movement in the provision for restructuring is as follows:		
Provision at the beginning of the year	1,091	2,685
Additional provision made during the year	–	275
Charged against the provision for the year	(934)	(1,869)
Reversal of unused portion of provision	(157)	–
PROVISION AT THE END OF THE YEAR	–	1,091

15. Annuity Prize Liabilities

	30/06/2008	30/06/2008	30/06/2007	30/06/2007
	AMOUNTS	FAIR	AMOUNTS	FAIR
	PAYABLE	VALUE	PAYABLE	VALUE
	\$000	\$000	\$000	\$000
Annuity prize liabilities	5,735	4,576	7,424	5,840

16. Prize Reserve Account

	30/06/2008	30/06/2007
	\$000	\$000
Opening balance	25,226	23,709
Amounts transferred based on game sales	26,789	25,852
Interest	5,499	4,580
Unclaimed prizes over twelve months old	12,459	12,575
Transfers to prize pools	(47,315)	(41,490)
	22,658	25,226

17. Employee Entitlements

	30/06/2008	30/06/2007
	\$000	\$000
Annual leave	543	469
Long-service leave	111	93
	654	562
Current liabilities	604	525
Long-term liabilities	50	37
	654	562

18. Reconciliation of Net Cash Flow from Operating Activities with Net Profit

	30/06/2008	30/06/2007
	\$000	\$000
Profit after distribution to the New Zealand Lottery Grants Board	–	5,396
<i>Adjustments for non-cash items</i>		
Depreciation of property, plant and equipment	5,781	4,667
Amortisation of computer software	903	749
Revaluation of property, plant and equipment	–	(324)
<i>Changes in assets and liabilities</i>		
Decrease in receivables for current games	2,518	(4,893)
Decrease in trade receivables	6	219
Increase in prepayments	(104)	(610)
Decrease in stock	717	(1,408)
Increase in moneys received or receivable for games	430	(3,051)
Increase in prize liabilities	8,422	6,268
Increase in trade creditors	2,078	1,438
Decrease in provisions	(1,091)	(1,554)
Increase in employee entitlements	91	(78)
Decrease in prize reserve account	(2,568)	1,517
<i>Investing activity items</i>		
Interest receipts	(8,068)	(7,362)
Gain / (loss) on sale of fixed assets	8	(45)
<i>Financing activity items</i>		
Annuity prize liabilities	(116)	3,338
New Zealand Lottery Grants Board payables	156,821	147,500
NET CASH INFLOW FROM OPERATING ACTIVITIES	165,828	151,767

19. Restrictions on Cash and Cash Equivalents, and Term Profit

	30/06/2008	30/06/2007
	\$000	\$000
Part of the balance of cash and cash equivalents, and term deposits is restricted and may be used only for the payment of prizes.		
TOTAL RESTRICTED AMOUNT	78,909	60,771

20. 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.

21. Key Management Personnel Compensation

	30/06/2008 \$000	30/06/2007 \$000
Salaries and other short-term employee benefits	1,830	1,726
Other long-term benefits	7	6
	1,837	1,732

Key management personnel include all board members, the Chief Executive, and the senior management team.

22. 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 the Commission of all elements of contracted remuneration packages (salaries together with any benefits including motor vehicles, superannuation scheme contributions made by the Commission, 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 Commission 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 Commission. 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	
	30/06/2008	30/06/2007
\$100,000 to \$109,999	1	2
\$110,000 to \$119,999	3	3
\$120,000 to \$129,999	5	2
\$130,000 to \$139,999	-	3
\$140,000 to \$149,999	2	1
\$150,000 to \$159,999	2	2
\$170,000 to \$179,999	-	1
\$180,000 to \$189,999	1	-
\$190,000 to \$199,999	-	2
\$200,000 to \$209,999	-	1
\$210,000 to \$219,999	2	-
\$300,000 to \$309,999	-	1
\$350,000 to \$359,999	1	1
\$410,000 to \$419,999	1	-

The employees listed above include the Chief Executive whose remuneration was between \$410,000 and \$419,999.

During the year, four people who ceased to be employees received a total of \$37,604 as compensation or other benefits in relation to the cessation of employment. This information is provided pursuant to section 152, subsection 1(d) of the Crown Entities Act 2004.

23. Commission Members' Fees

	30/06/2008 \$000	30/06/2007 \$000
John Goulter, Presiding Member	45	43
Paddy Austin, Deputy Presiding Member	28	27
Guy Herbert to 28 April 2008	18	21
John Wright from 1 March 2007	23	7
Laura Humphreys from 1 May 2007	23	4
Sally Jo Cunningham to 31 January 2007	–	13
Kay McKelvie to 31 October 2006	–	7
	137	122

24. Categories of Financial Assets and Liabilities

	30/06/2008 \$000	30/06/2007 \$000
<i>Loans and receivables</i>		
Cash and cash equivalents	90,663	40,465
Term deposits	–	42,623
Debtors and other receivables	6,664	9,188
	97,327	92,276
<i>Financial liabilities</i>		
Creditors and other payables	70,345	57,989
	70,345	57,989

25. 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.

26. Major Budget Variations

Sales exceeded budget by \$27.96 million. This was mainly due to incremental sales produced from three long Lotto Powerball jackpot runs.

There was no corresponding increase in operating expenses. This resulted in the net surplus for the year being \$156.82 million, 6.3% above budget.

27. Explanation of Transition to New Zealand Equivalents to International Accounting Standards (NZ IFRS)

Transition to NZ IFRS

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

Exemptions from full retrospective application elected by NZ Lotteries

In preparing the financial statements in accordance with NZ IFRS 1, NZ Lotteries has not applied any optional exemptions to full retrospective application of NZ IFRS.

The only mandatory exception from retrospective application that applies to NZ Lotteries is the requirement for estimates under NZ IFRS at 1 July 2006 and 30 June 2007 to be consistent with estimates made for the same date under previous NZ GAAP.

Reconciliation of equity

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

Reconciliation of profit

The effect of the transition was to reduce profit after distribution to the New Zealand Lottery Grants Board for the year ended 30 June 2007 by \$40,000 from \$5,436,000 to \$5,396,000 as there was no longer a difference between the nominal and present values of the above provision. The transition had no effect on profit for the year ended 30 June 2008.

Asset reclassification

- Computer software (which is not integral to the operation of the hardware in property, plant and equipment) has been separated out from property, plant and equipment and reclassified as a separate intangible asset. Fixed assets at 30 June 2007, stated in the previous financial statements at \$34,538,000, have been restated as property, plant and equipment (\$33,064,000) and computer software (\$1,474,000).
- Term deposits with maturities of up to three months from acquisition date are now reflected as part of cash and cash equivalents. Term deposits and other investments with maturities of more than three months from acquisition date are classified on their own. Previously, all term deposits, regardless of their maturity, were classified as investments. Investments at 30 June 2007, stated in the previous financial statements at \$82,313,000, have been restated as cash and cash equivalents (\$40,247,000) and term deposits (\$42,066,000). The value of accrued interest, formerly included within current assets, is now included as part of the underlying investments to which it relates. Accrued interest at 30 June 2007 of \$746,000, included in the previous financial statements as a current asset, has been restated as part of cash and cash equivalents (\$189,000) and term deposits (\$557,000).

Statement of cash flows

On transition to NZ IFRS, the reclassification of some cash and cash equivalents to term deposits has impacted on the statement of cash flows for the year ended 30 June 2007. The amount of cash and cash equivalents has decreased from \$82,342,000 to \$40,465,000.

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NZ LOTTERIES ANNUAL REPORT

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BOARD MEMBERS (AS AT 1 SEPT 2008)

John Goulter DCNZM, JP
Presiding Member

Chris Curley

Laura Humphreys
Deputy Presiding Member

John Wright

SENIOR MANAGEMENT

Todd McLeay, *Chief Executive*, Auckland

Warren Salisbury, *Deputy Chief Executive
& Chief Financial Officer*, Wellington

Karen Jones, *Head of Communications
and Government Relations*, Wellington

Evan Lawrey, *General Manager Interactive*, Auckland

Chris Lyman, *General Manager Retail Sales*, Auckland

Wendy Rayner, *Head of Marketing*, Auckland

Richard Tims, *Chief Technology Officer*, Auckland

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