

Annual Report 2014/15

Lotto
New Zealand



ISSN 1170-2974 (Print)
ISSN 1179-0253 (Online)



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The business of Lotto New Zealand

Our purpose

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

Our background

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

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

We employ approximately 125 staff, who are mostly based in Auckland, with a small number of our retail support staff based in different regions of the country. Our retail network encompasses almost 1,350 lottery outlets across the country, which employ more than 5,000 people, making it the single largest retail network in New Zealand.

Lotto was introduced to New Zealand in 1987. It was our first game and for over 27 years it has remained New Zealand's flagship lottery game. Our product range has expanded over the years to include Lotto Powerball, Lotto Strike, Big Wednesday, Instant Kiwi, Bullseye, Keno and Play 3. Lotto, Powerball and Strike will become even more important parts of our product suite in the coming years once we introduce a Wednesday draw, in addition to the Saturday draw.

The Lotto New Zealand Board

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



Judy Kirk
ONZM, Chair



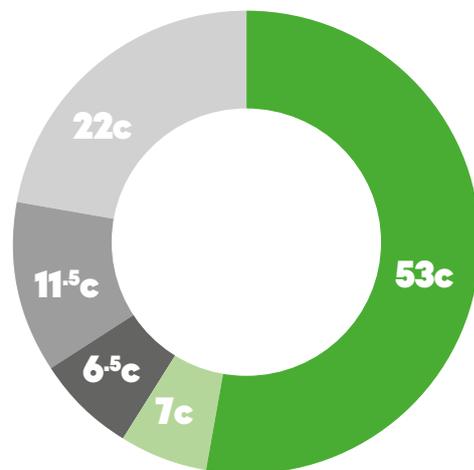
Tony Mossman
Deputy Chair

How Lotto New Zealand's money is spent*

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

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

For every \$1 from combined sales*



- Prizes
- Taxes (includes GST, gaming duty and problem gambling levy)
- Operating Costs
- Commissions (includes retailer commissions at 7% and bank charges on MyLotto sales)
- Lottery Grants Board

*Based on the results for the year ended 30 June 2015.



Miranda Burdon



Mark Gilbert



Richard Holden

Chair and Chief Executive's report

In a year distinguished by more than twice as many players winning Powerball than the previous year, Lotto New Zealand transferred \$198.6 million to the NZ Lottery Grants Board to help make good things happen in New Zealand communities.

Total sales for the year were \$893.7 million, down on the previous year by almost 10%. This translated to a profit of \$198.6 million, down on the previous year by \$27.6 million (12.2%) and \$26.5 million below the budgeted figure of \$225.1 million.

In any year, the length of jackpot runs and the corresponding first division prizes on offer have a significant influence on the businesses performance. As a jackpot increases, so do the number of people playing our games. While the results for the financial year were disappointing, they weren't a surprise given the fact that First Division prizes were won far more often than was statistically predicted. In the 2015 financial year, there was only one week where the Powerball jackpot was above \$20 million, compared to eight weeks the year prior. The budget for the year was always contingent on a statistically predicted occurrence of jackpots. This didn't happen and our results were ultimately impacted.

It is pleasing to report that in a year where top line results were hard to come by, our operating expenses came in \$2.1 million (3.2%) under budget. All major game and technology initiatives were executed well throughout the year and a focus on driving efficiencies through the business resulted in sound cost control.

All profit has been transferred to the Lottery Grants Board for onward distribution. Thanks to Lotto New Zealand players, thousands of community projects are made possible every year and essential funding is provided to New Zealand's sports people, artists and filmmakers.

Delivering our strategic initiatives

Our digital channel, MyLotto, had a strong 12 months, and despite the lower than expected jackpots saw a 2% lift in sales on the previous year. Use of mobile devices continues to grow rapidly and close to 40% of all MyLotto sales came through a mobile device. Mobile sales have experienced compounded annual growth rate of close to 100% over the three years, since the channel was first introduced to MyLotto in 2012.

At the end of the 2014 financial year, we launched a smartphone application that enables players to check tickets from their phone and establish instantly whether they have a winning ticket. This has proved to be very successful with usage continuing to grow throughout the year. During the

2015 financial year, we increased the functionality of the App by introducing a 2nd Chance draw that provides players with the opportunity to enter non-winning Instant Kiwi tickets into a draw for another prize. The additional functionality has seen usage continue to rise, with the App used close to one million times per month in the final quarter of the 2015 financial period.

During the year we launched a new daily game called Play 3. The daily games portfolio was also further expanded during the year by the introduction of two additional Keno draws, taking the total number of daily draws to four. Our Daily games continue to be popular online where sales through MyLotto increased 22% in FY15, compared to the previous year.

Reflecting the continued growth in the retail sector, we have increased our presence in supermarkets. We also opened Lotto New Zealand's first concept store, in Auckland. The concept store offers players an engaging in-store experience and operates as a live retail test environment allowing us to trial, test and learn.

Minimising the risk of problem and underage gambling associated with our games is central to our operations. We cannot achieve our objective of maximising benefits for New Zealand communities if playing our products is causing harm. While Lotto New Zealand products continue to represent a small percentage of people seeking professional help for problem gambling, we are conscious that even one person with a problem is one too many. We continue to improve our responsible gaming programme to ensure we are providing appropriate information, tools and support to all of our players.

During the year we have remained focused on delivering a world-class programme of responsible gaming and continue to work towards attaining the highest level of Responsible Gaming accreditation from the World Lottery Association.

Financial Performance

Lotto Powerball's jackpot was struck 11 times during the year - more than double the number of times it was struck in the previous period. This is the highest number of Powerball wins in a year since 2010, when the Powerball jackpot was also won 11 times. In total \$508.5 million in prizes were paid out to over 25 million winners throughout New Zealand.

Operating expenses for the year were \$62.8 million, below budget by \$2.1 million (3.2%). Net profit, all of which has been distributed to the Lottery Grants Board, amounted to \$198.6 million.

The Lotto family of products (Lotto, Powerball and Strike) continue to make up the lion's share of our business, with just over 60% of total portfolio sales, totalling \$545.4 million for the year. Big Wednesday sales came in at \$152.0 million, with sales from Instant Kiwi amounting to \$147.0 million for the year. The sales from our daily games were \$49.3 million.

While overall sales are down on the previous year, a result of the significantly lower jackpots on offer, sales through our online channel MyLotto continued to grow. Total sales through the channel amounted to \$75.5 million during the period. This was up \$1.6 million (2.1%) on the previous year and accounts for 8.4% of total sales, compared with 7.5% the previous year, driven by growth in daily and midweek play.

The year ahead

We have set a target of generating at least \$200 million in profit for the 2016 financial year. This will only be achieved if our loyal players continue to play our games regularly and we are able to encourage infrequent players to play more often.

Over the coming year we will be focused on improving the existing games within our portfolio. Central to this will be implementing the most significant product change in Lotto NZ's history, with the removal of Big Wednesday and the launch of Lotto, Powerball and Strike on a Wednesday.

As evidenced over recent years, we expect the proportion of our sales coming through our digital channel to continue to increase and as such, investment is required in this area of the business. This will protect the integrity of the channel, reduce cost of development and allow us to further enhance our digital offering, especially within the mobile space.

We will strengthen our retail network through targeted growth, increasing the number of Lotto outlets in strong performing retail sectors, which include supermarkets and petrol stations.

Our responsible gaming programme will be further enhanced, as we work towards attaining the highest level of accreditation by the World Lottery Association's Responsible Gaming Framework.

Thank you

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

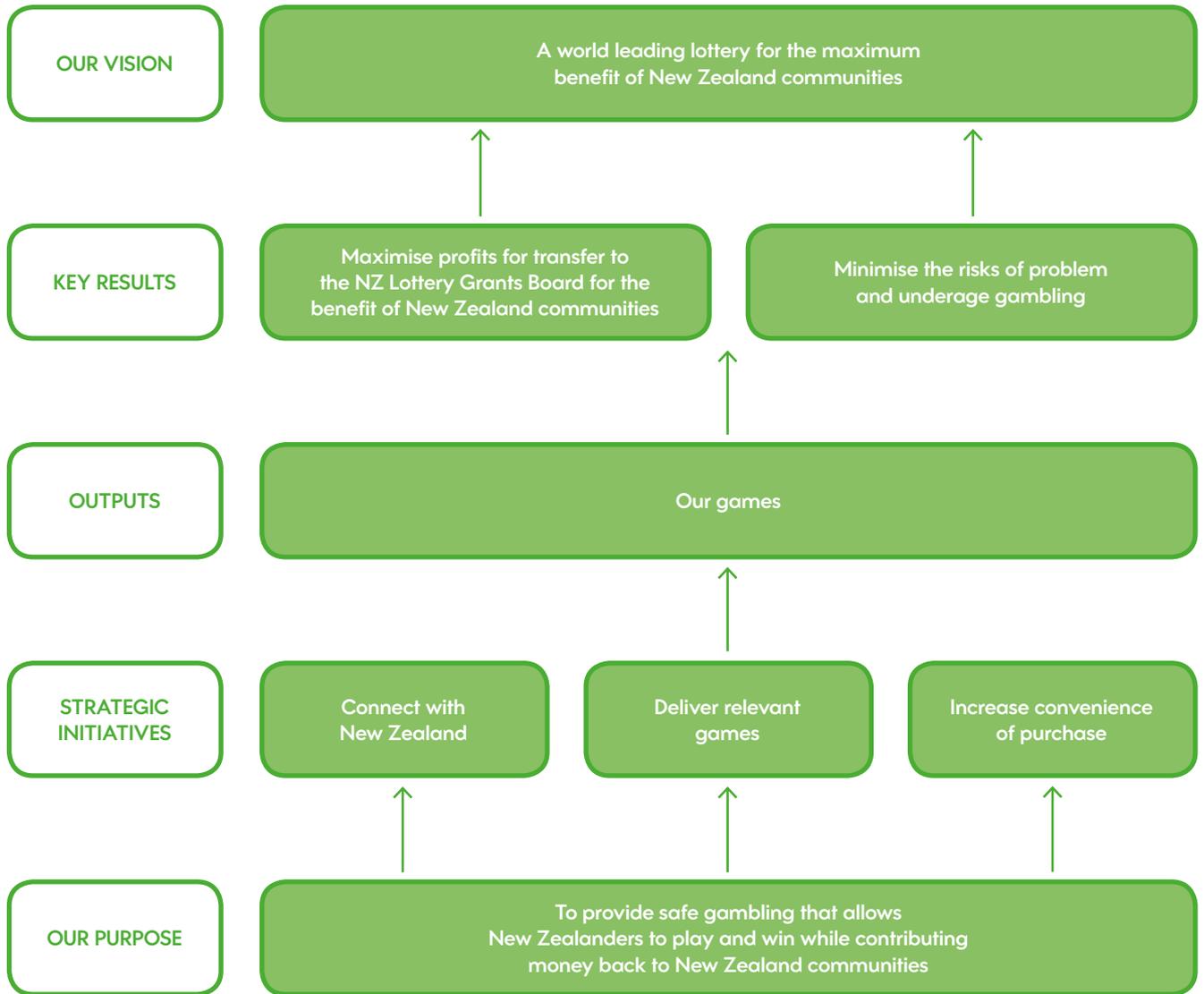


Judy Kirk
Chair
30 September 2015



Wayne Pickup
Chief Executive
30 September 2015

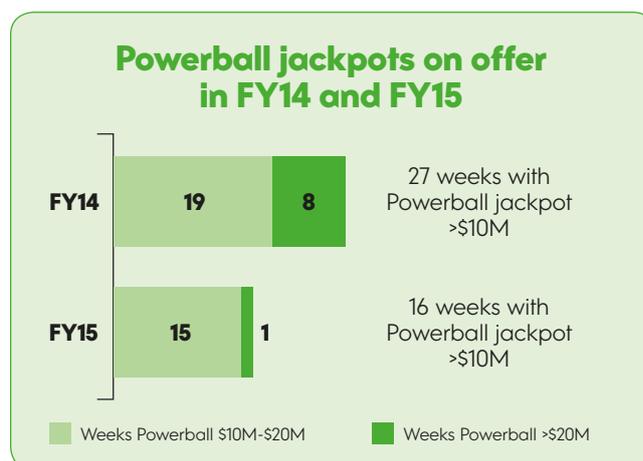
Our performance



Lotto New Zealand performance drivers

There is a very strong correlation between the size of the jackpot on offer and the number of people playing our games. As the jackpot grows, so do the number of people playing, specifically we see more infrequent players come into the category who only play at the higher levels. As a result, the length of jackpot runs and corresponding first division prizes on offer has a direct impact on our performance in any given year.

The 2015 financial year was characterised by Lotto Powerball being won more often than we would statistically expect. It was a year where there was only one week that the Powerball jackpot was higher than \$20 million, compared to eight weeks in the previous period.



Key results

	Actual 2014/15	Target 2014/15	Actual 2013/14	Actual 2012/13
Profit maximisation				
Sales (\$m)	\$893.7	1,009.7	988.8	946.8
Operating expenses(\$m) ¹	\$62.8	64.8	60.8	61.7
% operating expenses	7.0	6.4	6.1	6.5
Net profit (\$m)	\$198.6	225.1	226.2	201.8
Paid to the NZ Lottery Grants Board	198.6	225.1	231.2 ²	201.8
Harm minimisation				
Count of 'primary mode of gambling' citations by new problem gamblers who received full intervention treatment and new affected others	270 ³	<300	324	410
Citations per 10,000 players ⁴	1.1	<1.5	1.3	1.6

In all of our activities we aim to maximise profits for transfer to the Lottery Grants Board for the benefit of New Zealand communities and to minimise the harm from problem and underage gambling associated with our products. We measure our performance through the profit transferred to the Lottery Grants Board each year and the number of times that Lotto New Zealand's products are cited by individuals seeking assistance from problem gambling service providers.

While total sales amounted to \$893.7 million, a shortfall against budget of \$116.1 million (or 11.5%), operating expenses for the year came in below budget by \$2.1 million, or 3.2%. The net profit of

\$198.6 million has been transferred to the Lottery Grants Board, for onward distribution to New Zealand communities. Reflecting the sales variance for the year, total profit was \$26.5 million (or 11.8%) lower than budget.

We remain committed to minimising harm associated with Lotto New Zealand games and there has been significant focus during the 2015 year in strengthening our responsible gaming programme. This has put us in a strong position to gain the highest level of accreditation from the World Lottery Association in the year ahead.

¹ Operating expenses as a percentage of sales.

² 2013/14 profit paid to the Lottery Grants Board includes a special distribution of \$5 million from the sale of Lotto New Zealand's Auckland building during the year.

³ Based on preliminary figure provided by the Ministry of Health for the year to 31 December 2014. This data is therefore pro-rated for 12 months.

⁴ Based on number of unique players - defined as the average number of New Zealanders aged 18 and above who state they have purchased one or more Lotto New Zealand products in the last year. Source: The Research Agency. The Research Agency stopped providing this data from 30 September 2014 due to a change in market research provider. Reported data is therefore for the three months to 30 September 2014. 2015/16 data will be sourced from Colmar Brunton

Outputs

Lotto New Zealand has one class of outputs - our games. We offer a range of games that provide New Zealanders with safe gambling options to play and win. The profit generated from these lottery games is transferred to the Lottery Grants Board for distribution to New Zealand communities. Through the Lottery Grants Board, Lotto New Zealand is a major supplier of funding for Sport New Zealand, Creative New Zealand, and the New Zealand Film Commission. Lottery funding also

supports more than 3,000 community activities and projects each year.

Throughout the 2015 financial year we have successfully and responsibly promoted and run the eight games within our portfolio, namely Lotto, Powerball and Strike (collectively known as Lotto family), Big Wednesday, Instant Kiwi, Keno, Bullseye and the newly launched Play 3.

Strategic initiatives

During the year we have had three key strategic initiatives working together that focused on our players, our games and our channels. Through these strategic initiatives we have built

greater engagement with more New Zealanders, offering them a range of games that are fun to play and easy to purchase.

Connect with New Zealand

	Actual 2014/15	Target 2014/15	Actual 2013/14	Actual 2012/13
Connect with New Zealand				
Average weekly number of customers purchasing any Lotto game ⁵	1,228,458	1,300,000	1,289,867	943,703 ⁶
Contactable players ⁷	489,000	430,000	323,900	

Our focus throughout the year has been on ensuring our loyal players continue to play regularly, while encouraging less frequent players to purchase more often.

On average, over 1.2 million people played our games every week during the 2015 year, and while a lack of high jackpots resulted in this tracking below target, we are pleased to report that the number of players choosing to have a direct relationship with Lotto New Zealand has continued to grow. These players are engaging with the business through our digital channel (MyLotto), signing-up for email communications and using the smartphone ticket checker App.

The ability to engage directly with an increasing proportion of our customer base has provided the business with insights to tailor our product and service offering to meet the growing expectations of our customers in a digital age. This is evidenced

in new functionality such as the Instant Kiwi 2nd Chance draw, which, together with organic growth of the MyLotto channel, has been a key driver in growing the number of contactable customers during 2015.

Lotto New Zealand has a portfolio of products that rely on an emotional connection with our players and the ability to inspire them to dream and believe in the possibility of winning.

To highlight the scale of winning that happens with Lotto New Zealand, we have promoted winners throughout the year with stories of winning through both local and national media coverage. Winning has also been a prominent feature in our first concept store, opened in Auckland this year. The concept store provides an enhanced brand experience for our players in an environment where interactive technology facilitates cross-channel play.

⁵ Based on average number of weekly transactions

⁶ Current transaction count methodology was unavailable in 2012/13, based on average

⁷ Contactable players include all registered MyLotto players and 50% of our App users. We have 170,000 App users in total and some of them are also likely to be registered MyLotto players. However, we are currently unable to link these two groups together to determine exactly how many fit into each category. We have therefore taken a conservative estimate that 50% of App users are also MyLotto customers. This percentage is based on our research that shows a relatively high number of MyLotto players also play in retail.

Deliver relevant games

	Actual 2014/15	Target 2014/15	Actual 2013/14	Actual 2012/13
Deliver relevant games				
Lotto/Powerball/Strike				
Sales (\$m)	545.4	666.7 ⁸	631.5	562.9
Gross margin (\$m)	136.7	178.3	172.5	137.8
Big Wednesday				
Sales (\$m)	152.0	120.4 ⁹	159.6	191.4
Gross margin (\$m)	50.4	35.6	53.1	65.1
Instant Kiwi				
Sales (\$m)	147.0	165.9	150.9	146.1
Gross margin (\$m)	22.1	22.6	22.4	21.2
Other games				
Sales (\$m)	49.3	56.7	46.8	46.3
Gross margin (\$m)	12.4	13.6	11.4	11.8
Launch new game				
Launch a new add-on game for existing players	Yes	Yes	N/A	N/A

The lack of high Powerball jackpots over the course of the year resulted in a lack of momentum, where a less compelling Powerball offer resulted in fewer players overall and less category visibility in the market. As a result, Lotto family, Instant Kiwi and our daily games all came in below budget.

New product development over the year was focused in the daily games space, with the launch of an additional two Keno

draws, taking the number of daily draws to four. We also launched our first new game in six years, Play 3.

While it has been a positive move to bolster our offering in the daily games space, the foundation of our business continues to be the Lotto family of games and much of our focus during the year has been related to the launch of Lotto Powerball on a Wednesday, which will take place in the 2016 financial year.

Increase convenience of purchase

	Actual 2014/15	Target 2014/15	Actual 2013/14	Actual 2012/13
Increased convenience of purchase				
Retail sales	818.2	927.0	914.8	888.1
Number retail outlets	1,345.0	1,345.0	1,317.0	1,227.0
Supermarket penetration ¹⁰	80%	80%	78%	74%
Digital sales	75.5	82.7	73.9	58.7
Active MyLotto players ¹¹	94,980	110,000	92,006	76,374
MyLotto usage ¹²	495,935	490,000	470,034	386,000
MyLotto mobile usage ¹³	225,345	200,000	186,133	95,467
MyLotto ticket-schecker app usage ¹⁴	99,223	80,000	N/A	N/A

⁸ The Lotto family (Lotto, Powerball, Strike) budget for 2014/15 included an uplift in Lotto family from the fourth quarter as it was assumed that a Wednesday Lotto family offer would replace Big Wednesday in quarter four. However, this was delayed until the second quarter of 2015/16.

⁹ The target assumed that a Wednesday Lotto family offer would replace Big Wednesday from quarter four. However, this was delayed until the second quarter of 2015/16.

¹⁰ Supermarkets include Countdown, New World, Pak n Save and Fresh Choice

¹¹ Average number of MyLotto players played in the last month

¹² Average number of weekly visits to the MyLotto site

¹³ Average number of weekly visits to MyLotto from a mobile device

¹⁴ Average number of scans per week

Increase convenience of purchase

We need to make sure our games are accessible and easy to purchase, wherever and whenever our customers wish to shop. We are therefore conscious of ensuring that our distribution model adapts to changing consumer behaviour, both in the physical retail environment and in the digital space.

Reflecting the continued dominance of supermarkets in the grocery retail sector, we have increased our presence in supermarkets around the country. While we have also looked to increase our store density in areas of the country where it remains lower than national average.

While both retail and digital sales came in below budget, digital sales did exceed the previous year by \$1.6 million (2.1%), which is testament to the growth we experienced through the MyLotto channel this year.

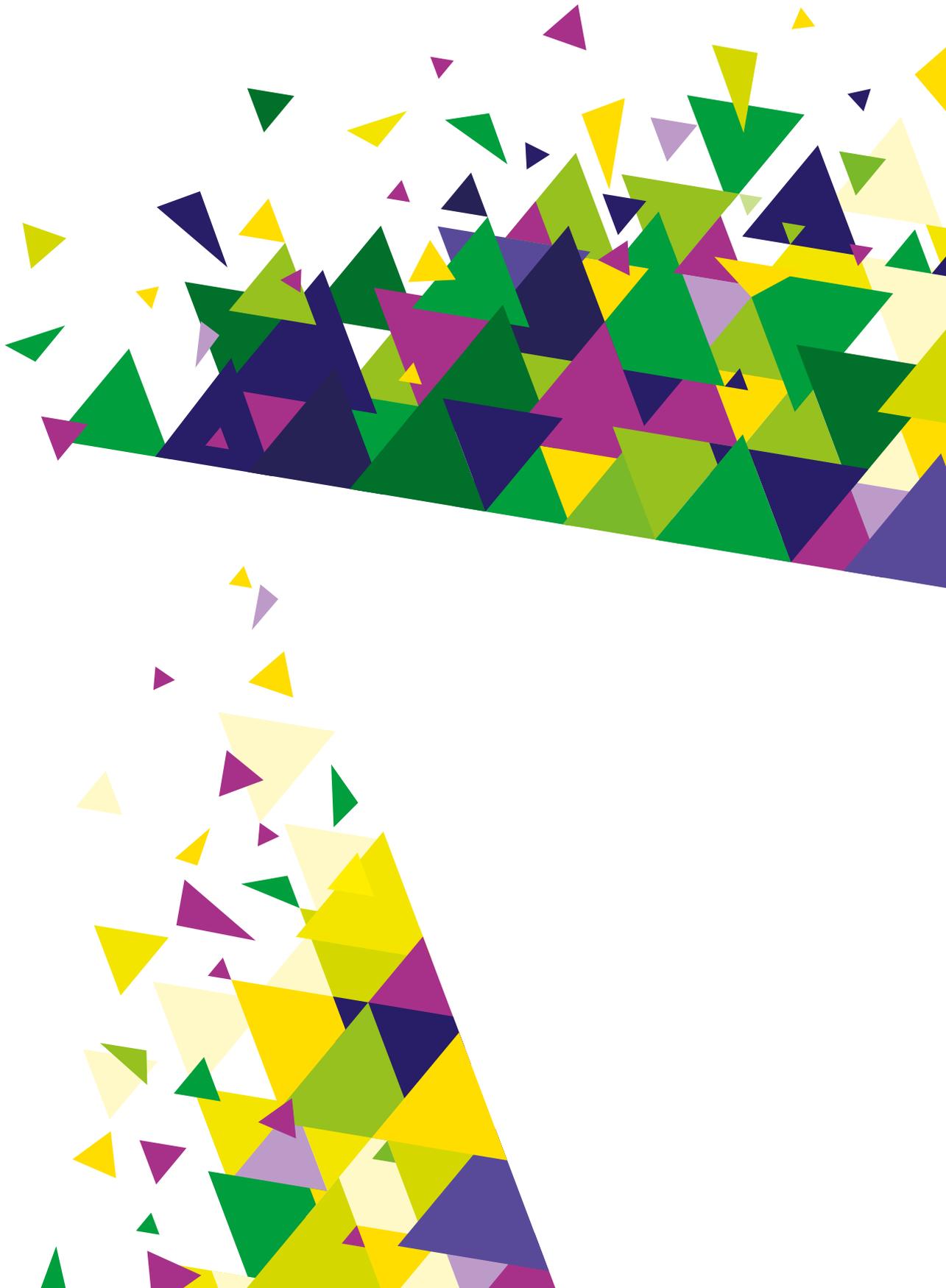
The rapid consumer adoption of smart devices has facilitated additional functionality to the Lotto New Zealand ticket checker App, which was launched at the end of the 2014 financial year. This has seen the introduction of a 2nd Chance draw for Instant Kiwi, which can also be entered via the MyLotto site. The 2nd Chance draw provides players with the opportunity to enter non-winning Instant Kiwi tickets into a draw for another chance to win. This type of functionality allows us to bring our retail and digital channels closer together, facilitating enhanced experiences through technology. The introduction of the draw has driven significant usage of the ticket checker, outperforming our expectations for the year.

Organisational health and capability

	Actual 2014/15	Target 2014/15	Actual 2013/14	Actual 2012/13
Organisational capability				
Retail network unplanned downtime	0 hours	<1.25 hours	0 hours	0 hours
GTECH core gaming system unplanned downtime	0 hours	<1.25 hours	0 hours	0 hours
MyLotto platform unplanned downtime	4 hours	<1.25 hours	0 hours	0 hours

The performance and integrity of our technology is integral to the success of Lotto New Zealand in any given year. During 2015 our retail network and core gaming systems experienced no major issues. The unplanned downtime of the MyLotto platform occurred immediately after the Easter promotion draw where we received higher than anticipated traffic volumes to

the mobile and desktop MyLotto sites, which caused them to become overloaded. Since then a performance improvement programme of work has been undertaken that has significantly improved the performance of the website, allowing it to handle greater volumes.



Winners

Lotto's lucky charm

Lotto was New Zealand's first lottery game and it has retained its popularity over the years. From October 2015, Lotto will be played on Wednesday as well as Saturday in a bid to create more winners and more millionaires than ever before.

One of this year's lucky winners was a Hokitika woman, who claims her charm bracelet was actually a lucky charm helping her to win \$2 million with Lotto First Division. In true West Coast fashion, this multi-millionaire celebrated her sudden windfall with whitebait fritters. Altogether, Lotto players won over \$165 million in prizes during the year.

Strike offers Lotto players another chance to win and this year gave away \$37 million in prizes to over six million winners. In June, for the first time in the

game's history, Strike reached a Must Be Won draw. The Strike Four jackpot of \$800,000 was not won outright, so rolled down to Strike Three where it was shared between 127 players who won \$7,357 each.

After being part of the live Lotto draw for a decade, this year the long-standing promotion of the Winning Wheel was retired. It went out with a bang, winning Auckland woman Margaret the top prize of \$1 million on its penultimate spin.

Winning at your fingertips

Lotto NZ's online shopping channel MyLotto continues to grow in popularity.

Almost 1.6 million MyLotto players won prizes, including a lucky player from Whanganui who won \$4.3 million with Powerball First Division in February.

The first clue that he'd won was an email from MyLotto saying that he'd won a prize, but even then he was surprised to discover just how major the prize was.

"I logged onto MyLotto and saw all the numbers being circled off on one line

on my ticket - they just kept coming."

"The next thing I knew it flashed up saying I'd won \$4,333,333. My whole body went tingly and I started shaking - I just kept thinking that there must have been some mistake," the winner said.

Eight other MyLotto players won Lotto First Division during the year, collecting prizes worth \$5 million and four MyLotto players won Strike Four, collecting over \$1 million in prizes.

The Powerball winning streak

It was one of the luckiest years on record for Powerball players - 11 lucky Powerball players won First Division prizes worth almost \$107 million in total.

The winners were from all over New Zealand including Auckland, Tauranga, Hamilton, Rotorua, Whanganui, Feilding, Blenheim, Nelson, Hokitika and Ashburton.

One of these lucky Powerball winners has his best friend to thank for his sudden windfall. He was given a Powerball ticket by a friend to thank him for helping around the house. Then, just days later, that same little yellow ticket was worth \$10.7 million.

While excited by the possibilities of his newfound fortune, the understated winner wasn't planning to drastically change his life straight away. "The first thing I'm going to buy is some new jandals," said the winner at the time.

Over 163,000 Powerball winners took home more than \$109 million with Lotto Powerball over the course of the year.



Big Wednesday

It was a big year of winning for Big Wednesday players, who scooped the First Division jackpot on five different occasions to share winnings worth over \$52 million in total.

Among these winners were childhood best friends from the South Island, who collected \$12.3 million in May. The friends buy a ticket together every week – a tradition they started several years ago as a bit of midweek fun – and then check their tickets together over morning tea following the draw. Their morning tea following the life-changing draw was slightly more exciting than usual.

"We just looked at each other, with our mouths agape. Then I said, 'look at us

– fabulous, wealthy tarts!' and we both just burst out laughing," said one of the winners.

The newly minted friends have different plans for how to spend their money – one will indulge their love of travel while the other plans to help rescued animals.

Over 2.6 million Big Wednesday winners took home more than \$73 million in prizes with Big Wednesday over the course of the year.

More ways to win with Instant Kiwi

Instant Kiwi players have won big in more ways than one this year, as the introduction of 2nd Chance draw saw hundreds of players turning non-winning tickets into cash.

Over 10 million players collected over \$95 million in prizes with winning Instant Kiwi tickets – including 157 top prizes ranging from \$10,000 to \$250,000.

One lucky Instant Kiwi winner from Hokitika won \$75,000 on a \$5 crossword ticket. She initially thought she'd won \$500, then recounted the scratched words and thought she'd won \$5,000. She was then surprised and delighted when her local Lotto retailer revealed she'd actually won the top prize of \$75,000.

The winning crossword ticket was a \$5 Summer Escape, so it's only fitting that the winner celebrated with an ice cream.

During the year, Lotto NZ introduced 2nd Chance, giving all non-winning Instant Kiwi tickets another chance at winning a prize. Since March, there have been 18 weekly draws, giving away 10 prizes of \$1,000 each week; and two promotional draws, giving away two extra prizes of \$1,000.

In total, 182 Instant Kiwi ticket-holders have taken home \$200,000 in prizes thanks to their non-winning tickets.



More chances to win with daily games

The daily games category expanded this year with the introduction of two additional Keno draws and a new simple numbers game, Play 3.

Keno and Bullseye are our daily games that give players the chance to turn small money into big prizes.

The number of daily Keno draws increased from two to four and a new freephone results line was introduced, so that players are able to check the latest draw at a time convenient for them. Over two million Keno players shared almost \$17 million in prizes during the year.

The Bullseye jackpot reached the maximum of \$400,000 three times during the year, creating Must Be Won draws. In the first two Must Be Won draws the Division One jackpot rolled

down to Division Two where it was shared amongst winning players in that division, who each home between \$110,000 and \$143,334. In the third Must Be Won draw during the year, the Division One jackpot rolled down to Division Three where 32 winners took home \$12,917 each.

A new daily game called Play 3 was introduced in October. Play 3 is a simple numbers game, where players choose a three-digit number and can win by matching their numbers in four different ways. The ticket price starts at \$1 and it's a fixed-odds game with the top prize of \$500. During the year, almost 27,000 players won over \$1.6 million.

New Zealand community winners

Lotto New Zealand is the sole funder of the New Zealand Lottery Grants Board. Lotto players make good things happen by generating essential funding for sports and recreation, arts and culture, and community services throughout New Zealand. Through the Lottery Grants Board, Lotto is a major funder of Sport New Zealand, Creative New Zealand and the New Zealand Film Commission and contributes to more than 3,000 community activities and projects each year.

In 2015, Lotto players provided almost \$198.6 million to the Lottery Grants Board to help make good things happen in our communities.



Surf Life Saving funding in action

Lottery grants are one of the major sources of funding for Surf Life Saving New Zealand.

Lotto NZ continuously supports Surf Life Saving through lottery grants, funding the organisation around \$2 million per year. These funds support local Surf Life Saving clubs up and down the country and are used for beach education programmes and club development.

Surf Life Saving New Zealand is a not-for-profit charity that represents 74 Surf Life Saving Clubs in New Zealand. Since 1910, extraordinary New Zealanders

have been volunteering their time to patrol New Zealand's beaches. They have around 18,000 members with lifeguards ranging in age from 14 all the way up to 80-year-olds.

In any given summer, around 4,000 volunteer lifeguards spend over 200,000 hours keeping a watchful eye over beaches right around the country, helping to make them a safer place for Kiwis and their families to enjoy the summer. During an average season, over 1,200 people are rescued from life-threatening situations.

Making a difference to Kiwi kids and their families

Every week in New Zealand three families are told their child has cancer. The Child Cancer Foundation helps to support these families from the very beginning of their journey and aims to ensure each family and their child will never feel alone.

Lotto players support the work of the Child Cancer Foundation by generating funds that go towards the family support co-ordinator role. The Family Support team work in conjunction with parents and volunteers in the local community. By providing practical and emotional help, the Family Support team act as a conduit between the medical world of the hospital and the real world of family life.

Studies show that children undergoing medical treatment do better with their families close by and the family support workers ensure that families have access to services in and around hospital to assist in their care.



Paving the way for international cricket

International cricket fever hit New Zealand in February and March 2015 and Lotto players were involved in supporting the host venues in five of the seven centres, which saw some fiercely contested matches.

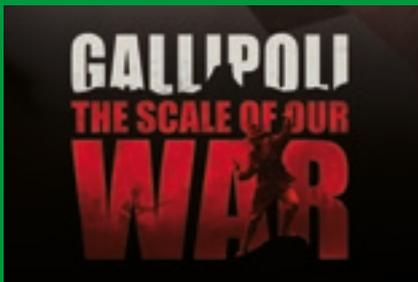
Hagley Oval in Christchurch applied to host world cup matches before they had a pavilion or cricket ground. The Lottery

Grants Board funded over \$1 million towards the building of the Hagley Oval Pavilion in Christchurch, which hosted the opening game between New Zealand and Sri Lanka.

The Saxton Oval in Nelson was also a major benefactor of lottery funding, receiving two Lotto grants of \$784,000 in 2008 and another grant of \$400,000

in 2007. Lottery funding was a key factor in securing host rights to three world cup games in Nelson.

New Zealand enjoyed a magnificent summer of world class cricket and Lotto players were influential in ensuring the world class sports facilities needed in New Zealand to host these games.



Te Papa's Gallipoli exhibition comes to life

A ground-breaking Gallipoli exhibition to mark the centenary of WW1 opened at Te Papa in April 2015 and is free to the public, thanks to Lotto players.

Gallipoli: The Scale Of Our War has been described as an exhibition that every New Zealander should see. Te Papa and Weta workshop collaborated on the project which is considered to be a world first.

It follows eight New Zealanders and brings their stories to life – on a monumental scale. The figures of seven soldiers and a nurse represent key moments in the war, frozen in time, at 2.4 times human scale.

Entry to the exhibition is free, thanks in part to the funding received from the Lottery Grants Board through the sale of Lotto tickets. \$3.6 million in lottery grants was provided to help bring the Gallipoli exhibition to life.



Sport Maker of the Year 2015

Keen archer and volunteer extraordinaire Dennis Mroczkowski was named the Lotto New Zealand Sport Maker of the Year for 2015.

Award-winner Dennis has been involved with the Shore Archery club on the North Shore of Auckland for over 20 years. He is currently club president, groundsman, equipment repairman and "chief arrow-finder", and spends most days at the club coaching beginners through to advanced archers.

Dennis' coaching provides essential income for the club and he has helped his athletes achieve both regional and national success. Thanks to his influence, archery has also been introduced into two secondary schools on the North Shore.

As part of Lotto New Zealand and Sport New Zealand's Thank a Sport Maker programme, thousands of volunteers were recognised for the amazing work they do to help make sport happen in this country. Over 400 sport makers were rewarded with sporting merchandise to help them do what they do best – make sport happen!

Organisational health and capability

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

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

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

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

Leadership, accountability and culture

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

Recruitment, induction and selection

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

Employee development, promotion and exit

- We run a leadership development programme annually for high performing talent in the organisation who show potential and aspiration to progress their careers. The programme focuses on building their confidence and self-awareness, as well as practical skill-based learning around presentation, influencing and project management. Each year approximately 8-10 staff members are selected to join the programme
- All staff undertake an annual performance review cycle, with reviews completed and documented biannually to provide formal opportunities for feedback
- All staff set development goals at the start of each year and are encouraged and supported to undertake appropriate training and professional development with a focus on learning through on-the-job growth opportunities
- Opportunities for secondments and promotions are encouraged within the business to help our staff progress their careers with Lotto New Zealand
- All staff are given the opportunity to complete an exit interview.

Flexibility and work design

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

Remuneration, recognition and conditions

- All roles within the business are evaluated and benchmarked externally to ensure our remuneration packages are fair and competitive in the market
- Remuneration reviews take place annually for staff and are determined based on a combination of market benchmarking and performance
- Performance incentives are provided for specific roles to drive high performance against specific and measurable goals
- All staff are entitled to an annual wellness investment that can be used for physical or health-related activities
- Our Volunteer Day programme enables all staff to use their skills to help a charitable or community organisation.

Harassment and bullying prevention

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

Safe and healthy environment

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

Workplace profile

As at 30 June 2015

	Number	Percentage
Staff numbers FTE	120.7	
Headcount	124	
Gender		
Women	70	56%
Men	54	44%
Senior management (Chief Executive and direct reports)		
Women	4	44%
Men	5	56%
Management (Of functional teams, more than five reports, not including senior management)		
Women	4	44%
Men	5	56%
Age		
19 and under	1	1%
20 - 29	25	20%
30 - 39	57	46%
40 - 49	27	21%
50 - 59	13	11%
60 and over	1	1%
Total	124	100%
Ethnicity distribution		
Asian	14	11%
European	16	13%
European/New Zealander	73	59%
Indian	10	8%
Maori	4	3%
Pacific	6	5%
Other	1	1%
Total	124	

*We also collect disability data.

Responsible gaming programme

Corporate social responsibility is embedded into the day-to-day operations of our business. Put simply, we want to make a positive difference to all of our stakeholders, including New Zealand communities, our players, our retailers, and our employees. We cannot achieve our objective of maximising benefits for New Zealand communities if playing our games is causing undue harm.

Our primary focus is to provide a safe gaming environment that encourages responsible play. Lotteries work because a large number of people pay a small amount of money each to be in with a chance to win. For most people, playing lottery games is fun. However, we know that there is a small percentage of people who have gambling problems.

Our responsible gaming programme is currently level 3 certified (out of 4 possible levels) under the World Lottery Association's Responsible Gaming Framework. Our responsible gaming programme consists of policies and practices designed to prevent and reduce potential harm associated with gaming, including excessive spending. We aim to educate and enable players to make informed choices and develop responsible play habits, and to provide tools and support for players who may need assistance.

Game design

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

Marketing and advertising

- We will not promote reliance on gaming as a means of relieving financial difficulty
- We will not encourage consumers to participate excessively or beyond their means
- We will not imply a promise of winning nor portray unrealistic outcomes
- We will not exaggerate the chances of winning or the size of the prize

- We will not imply a player's skill can influence the outcome of our games
- All Lotto New Zealand advertising adheres to the Advertising Standard Authority's Code for Advertising and Gambling 2001.
- Our products are designed to primarily appeal to those aged over 18.

Player education

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

Our retail network

- We are committed to providing games in a safe, secure and friendly environment and our retailers are a crucial channel for information and support
- All retailers are trained to ask for identification for any Instant Kiwi customer that looks 25 or under and to identify potential problem gambling behaviour
- We provide retailers with tools and support to help them identify and address underage gambling and concerning customer behaviour.

Digital channels

- Our online games through MyLotto have spending limits of \$150 per week and \$300 per month, set in conjunction with the Department of Internal Affairs and the Ministry of Health
- Customers can set their own lower spending limits. Increases to these limits are subject to enforced delays to help prevent spontaneous decisions to increase spending
- Customers can self-exclude themselves from playing any of our games online
- The maximum online account balance is \$999. If any customer has a balance higher than this, they cannot purchase tickets until they withdraw money to reduce their balance
- 2nd Chance draw has a maximum of \$150 worth of tickets that can be entered in one week
- We actively monitor customers' spending limits and provide information and support to any players regularly spending up to the site maximum for MyLotto and 2nd Chance.

Our stakeholders

- We work with problem gambling treatment providers to gather valuable input to improve the tools and resources we provide to our players, retailers and staff to educate and enable responsible play choices
- Our employees are all trained in responsible gaming and it forms a key part of our day-to-day decision making throughout the business.

A snapshot of responsible gaming measures

	Actual 2014/15	Target 2014/15	Actual 2013/14
Amount transferred to the Lottery Grants Board for community funding	\$198.6M	\$225.1M	\$231.2M
Problem Gambling Levy	\$1.154M	\$1.418M	\$1.337M
Count of retailers convicted of selling Instant Kiwi to people under 18 years	Nil	Nil	Nil
Count of 'primary mode of gambling' citations by new problem gamblers who received full intervention treatment and new affected others	270	<300	324
Problem gambling citations per 10,000 players	1.1	<1.5	1.3
Average GaM-GARD score for all Lotto Games ¹	18.3 (Low)	<20 (Low)	18.4 (Low)
Advertising standards complaints upheld	Nil	Nil	Nil
Retailer confidence in underage and problem gambling training ²	79%	84%	New measure
Brand health ³	63%	70%	New measure

¹ GaM-GARD is an independent, external game evaluation tool used to assess the potential risk of our portfolio of games.

² Lotto New Zealand retailer engagement survey 2015

³ Regular customer research tracks players affinity for Lotto New Zealand's brand.

Statement of performance

	Actual 2014/15	Target 2014/15	Actual 2013/14	Actual 2012/13
Profit maximisation				
Sales (\$m)	893.7 ¹	1,009.7	988.8	946.8
Operating expenses (\$m)	62.8 ²	64.8	60.8	61.7
% operating expenses ³	7.0	6.4	6.1	6.5
Net profit (\$m)	198.6 ⁴	225.1	226.2	201.8
Paid to the NZ Lottery Grants Board (\$m)	198.6	225.1	231.2 ⁵	201.8
Lotto/Powerball/Strike				
Sales (\$m)	545.4 ⁶	666.7 ⁷	631.5	562.9
Gross margin (\$m)	136.7	178.3	172.5	137.8
Big Wednesday				
Sales (\$m)	152.0	120.4 ⁷	159.6	191.4
Gross margin (\$m)	50.4	35.6	53.1	65.1
Instant Kiwi				
Sales (\$m)	147.0 ⁸	165.9	150.9	146.1
Gross margin (\$m)	22.1	22.6	22.4	21.2
Other games				
Sales (\$m)	49.3 ⁹	56.7	46.8	46.3
Gross margin (\$m)	12.4	13.6	11.4	11.8
Contactable players				
Contactable players ¹⁰	489,000 ¹¹	430,000	323,900	264,639
Harm minimisation				
Count of 'primary mode of gambling' citations by new problem gamblers who received full intervention treatment and new affected others	270 ¹²	<300	324	410
Citations per 10,000 players	1.1 ¹³	<1.5	1.3	1.6

1. Sales including GST amounted to \$893.7 million, a shortfall against budget of \$116.1 million (or 11.5%). This year's sales have been negatively affected by the unusually high number of short jackpot cycles, particularly on Powerball. Sales on Lotto, Powerball and Strike (Lotto family) have contributed to more than the total sales variance overall as a consequence of the lower than expected average Powerball jackpot for the year.

2. Operating expenses for the year came in below budget by \$2.1 million, or 3.2%, mainly as a result of costs attributable to the launch of Lotto family from the fourth quarter being delayed until the second quarter of 2015/16.

3. Operating expenses as a percentage of sales.

4. Net profit of \$198.6 million was \$26.5 million (or 11.8%) lower than budget, reflecting the sales percentage variance for the year.

5. 2013/14 profit paid to the NZ Lottery Grants Board includes a special distribution of \$5 million from the sale of Lotto NZ's Auckland building during the year.

6. Lotto family sales were \$121.3 million below budget, primarily as a result of the abnormally high number of times Powerball has been won through the year. Last year for example, Powerball was won just five times, in 2014/15 it was won 11 times. The number of weeks with a Powerball offer greater than \$15 million was 16 last year, in 2014/15 it was five. With lower than average jackpots throughout the year, sales did not gain the momentum to generate the sales we needed to achieve budget. Furthermore, the budget for 2014/15 included an uplift in Lotto family from the fourth quarter as it was assumed that a Lotto family offer would replace Big Wednesday in the middle of the week, which was delayed until the second quarter of 2015/16.

7. The target assumed that a Lotto family offer would replace Big Wednesday in the middle of the week from quarter four, which was delayed until the second quarter of 2015/16.

8. Instant Kiwi sales fell short on budget by \$18.9 million. Part of this variance is attributable to the lower foot traffic passing through our retail network due to a less compelling Powerball offer.

9. Sales of Keno and Play3 were both down on budget by \$4.3 million and \$3.3 million respectively.

10. Contactable players include all registered MyLotto players and 50% of our App users. We have 170,000 App users in total and some of them are also likely to be registered MyLotto players. However, we are currently unable to link these two groups together to determine exactly how many fit into each category. We have therefore taken a conservative estimate that 50% of App users are also MyLotto customers. This percentage is based on our research that shows a relatively high number of MyLotto players also play in retail.

11. The increase is due to organic growth of the MyLotto channel as well as the launch of a new mobile App. The launch of the 2nd Chance Instant Kiwi draw has furthermore increased our base of contactable players.

12. Based on preliminary figure provided by the Ministry of Health for the year to 31 December 2014. This data is therefore pro-rated for 12 months.

13. Unique players are the average number of New Zealanders aged 18 and above who state they have purchased one or more Lotto New Zealand products in the last year. Source: The Research Agency. The Research Agency stopped providing this data from 30th September 2014 due to a change in market research provider. Reported data is therefore for the 3 months to 30th September 2014. 2015/16 data will be sourced from Colmar Brunton.

Financial statements

Statement of responsibility

For the year ended 30 June 2015

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

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

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

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



Judy Kirk
Chair
30 September 2015



Tony Mossman
Deputy Chair
30 September 2015

Independent auditor's report

To the readers of New Zealand Lotteries Commission's financial statements and performance information for the year ended 30 June 2015.

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

Opinion on the financial statements and the performance information

We have audited:

- the financial statements of the Commission on pages 24 to 46, that comprise the statement of financial position as at 30 June 2015, the statement of comprehensive income, statement of movements in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance information of the Commission on pages 6 to 10 and 20.

In our opinion:

- the financial statements of the Commission:
 - present fairly, in all material respects;
- its financial position as at 30 June 2015; and
- its financial performance and cash flows for the year then ended; and
 - comply with generally accepted accounting practice in New Zealand and have been prepared in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards.
- the performance information:
 - presents fairly, in all material respects, the Commission's performance for the year ended 30 June 2015, including for each class of reportable outputs;
- its standards of performance achieved as compared with forecasts included in the statement of performance expectations for the financial year; and
- its actual revenue and output expenses as compared with the forecasts included in the statement of performance expectations for the financial year.
- complies with generally accepted accounting practice in New Zealand.

Our audit was completed on 30 September 2015. This is the date at which our opinion is expressed.

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

Basis of opinion

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

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

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the performance information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and the performance information, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the Commission's financial statements and performance information in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control.

An audit also involves evaluating:

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

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

We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Board

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

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

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

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

Responsibilities of the Auditor

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

Independence

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

In addition to the audit we have carried out a review engagement of the New Zealand Lotteries Commission's financial statements for the six months ended 31 December 2014 and acted as scrutineer for all Lotto products, Big Wednesday, Bullseye, Daily Keno and Play 3 games and Instant Kiwi products. These assignments are compatible with those independence requirements.

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



Karen MacKenzie

Audit New Zealand

On behalf of the Auditor General
Auckland, New Zealand.

30 September 2015

Statement of comprehensive income

For the year ended 30 June 2015

	Note	30/06/15 Actual \$000	30/06/15 Budget \$000	30/06/14 Actual \$000
Revenues				
Revenues	2	848,538	957,939	942,006
Cost of sales	3	587,167	667,971	655,081
Gross profit		261,371	289,968	286,925
Expenses				
Promotion and retail support		24,542	26,977	25,761
Property, plant and equipment depreciation	4	5,054	5,605	4,255
Computer software amortisation		1,597	1,265	1,225
Gaming system expenses excluding depreciation		6,215	5,356	5,625
Employee remuneration		12,462	12,898	13,101
Other	5	12,898	12,738	10,801
Total expenses		62,768	64,839	60,768
Profit		198,603	225,129	226,157
Distribution of profit to the NZ Lottery Grants Board		198,603	225,129	226,157
Special distribution to the NZ Lottery Grants Board		-	-	5,000
Profit/(loss) after distributions to the NZ Lottery Grants Board		-	-	(5,000)
Other comprehensive income - net change in fair value of cash flow hedges	27	849	(200)	(1,211)
Total comprehensive income/(expense)		849	(200)	(6,211)

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 2015

	Note	30/06/15 Actual \$000	30/06/15 Budget \$000	30/06/14 Actual \$000
Equity at beginning of the year		22,264	28,313	28,475
Comprehensive income				
Profit after distributions to the NZ Lottery Grants Board		-	-	(5,000)
Other comprehensive income				
Net change in fair value of cash flow hedges	27	849	(200)	(1,211)
Equity at the end of the year	18	23,113	28,113	22,264

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

Statement of financial position

As at 30 June 2015

	Note	30/06/15 Actual \$000	30/06/15 Budget \$000	30/06/14 Actual \$000
Assets				
Current assets				
Cash and cash equivalents	6,8	30,180	73,736	70,774
Term deposits	7,8	20,551	2,522	28,167
Debtors and other receivables	9	8,161	7,300	5,271
Prepayments		3,360	5,400	7,313
Inventories	10	3,204	2,000	4,155
Total current assets		65,456	90,958	115,680
Non-current assets				
Property, plants and equipment	11	20,034	17,993	15,123
Computer software	12	5,847	9,466	5,012
Total non-current assets		25,881	27,459	20,135
Total assets		91,337	118,417	135,815
Liabilities				
Current liabilities				
Creditors and other payables	13	49,851	70,860	70,214
Annuity prize liabilities	14	50	45	147
Employee entitlements	16	648	900	629
Provisions	17	486	-	549
Short-term financial derivatives	27	-	-	849
Lease incentive	11	235	-	176
Total current liabilities		51,270	71,805	72,564
Long-term liabilities				
Annuity prize liabilities	14	-	-	45
Lease incentive	11	1,706	1,905	1,941
Total long-term liabilities		1,706	1,905	1,986
Prize reserve account	15	15,248	16,594	39,001
Total liabilities		68,224	90,304	113,551
Equity				
Retained earnings	18	23,113	28,113	23,113
Cash flow hedge reserve	27	-	-	(849)
Total equity		23,113	28,113	22,264
Total liabilities and equity		91,337	118,417	135,815

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

Judy Kirk
Chair
30 September 2015



Tony Mossman
Deputy Chair
30 September 2015



Statement of cash flows

For the year ended 30 June 2015

	Note	30/06/15 Actual \$000	30/06/15 Budget \$000	30/06/14 Actual \$000
Cash flows from operating activities				
Sales		838,888	948,089	932,791
Net GST (paid)/received		1,462	-	264
Other receipts		7,399	5,641	11,345
Prize payments		(516,593)	(557,181)	(531,948)
Lottery duty		(48,402)	(55,535)	(55,542)
Retailers' commission		(58,621)	(66,545)	(64,878)
Employee costs		(12,378)	(12,898)	(13,135)
Other payments		(44,315)	(50,565)	(56,889)
Net cash flow from operating activities	19	167,441	211,006	222,008
Cash flows from investing activities				
Net reduction in term deposits		7,616	-	34,260
Sale of property, plant and equipment		183	150	9,129
Interest received		4,130	4,330	5,485
Purchase of property, plant and equipment		(10,184)	(8,269)	(6,556)
Purchase of computer software		(2,473)	(5,350)	(1,858)
Net cash flow from investing activities		(727)	(9,139)	40,460
Cash flows from financing activities				
Discharge of annuity prize liabilities		(150)	(150)	(335)
Payments to the NZ Lottery Grants Board		(207,157)	(225,129)	(238,293)
Net cash flow from financing activities		(207,307)	(225,279)	(238,628)
Net (decrease)/increase in cash balances		(40,594)	(23,412)	23,840
Opening cash and cash equivalents balance		70,774	97,148	46,934
Closing cash and cash equivalents balance	6	30,180	73,736	70,774

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

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

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

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

Statement of commitments

For the year ended 30 June 2015

	30/06/15 Actual \$000	30/06/15 Budget \$000
Capital commitments approved and contracted		
Property, plant and equipment	182	8,267
Total capital commitments	182	8,267
Non-cancellable operating lease commitments, payable		
Not later than one year	1,017	880
Later than one year and not later than two years	1,017	902
Later than two years and not later than five years	2,372	2,478
Later than five years	2,560	3,347
Total non-cancellable operating lease commitments	6,966	7,607
Other non-cancellable contracts		
Not later than one year	11,689	11,629
Later than one year and not later than two years	1,897	1,594
Later than two years and not later than five years	3,909	3,156
Later than five years	-	953
Total other non-cancellable contracts	17,495	17,333
Total commitments	24,643	33,207

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

- Auckland office - in September 2013, Lotto New Zealand sold its building at 117 Khyber Pass Road, Auckland and then leased the premises for a further 12 months until September 2014. The annual rental was \$699,240.
- On 21 July 2014 Lotto New Zealand moved to new Auckland premises. The lease on these premises will run until September 2023 with a renewal option for two further terms of six years each. The annual rental on these premises is \$1,020,945 (less lease incentive of \$235,214 per annum over nine years) with a rent review every three years.
- Christchurch office - the lease runs until June 2017 with a renewal option of four years. The annual rental is \$45,212.
- Wellington office - the lease expired on the existing building on 30 June 2014 and a lease at new premises was entered into on 1 June 2014 for a three-year term. The annual rental is \$69,600.
- Auckland St Lukes store - the lease runs until July 2017. The annual rent is \$115,050.

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

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

Statement of contingent liabilities and contingent assets

As at 30 June 2015

There were no contingent liabilities or contingent assets at either 30 June 2015 or 30 June 2014.

Notes to the financial statements

1. Statement of accounting policies for the year ended 30 June 2015

Reporting entity

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

The financial statements for Lotto New Zealand are for the year ended 30 June 2015, and were approved by the Board on 30 September 2015.

Statement of compliance

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

Standards, amendments and interpretations issued and not yet effective:

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

Basis of preparation

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

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

Accounting policies

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

Budget figures

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

Comparative figures

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

Changes in accounting policies

There have been no changes in accounting policies.

Computer software

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

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

Contingent assets and contingent liabilities

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

Employee entitlements

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

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

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

Equity

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

Financial instruments

Cash and cash equivalents, and term deposits

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

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

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

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

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

Derivative financial instruments and hedging

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

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

Cash flow hedge

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

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

Annuity prize liabilities

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

Foreign currency transactions

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

Goods and Services Tax (GST)

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

Inventories

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

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

Interest

Interest income is recognised using the effective interest rate method.

Interest on cash and cash equivalents and term deposits relating to unpaid prizes and the prize reserve account is credited direct to the prize reserve account. Interest on other cash and cash equivalents and term deposits is included in profit or loss.

Estimates and assumptions

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

Critical judgements in applying accounting policies

Lotto New Zealand has assessed the prize reserve fund as a liability as itemised in the prize reserve account policy below. No other critical judgement has been made when applying accounting policies.

Leases

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

Prize reserve account

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

Property, plant and equipment

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

Revaluations

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

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

Accounting for revaluations

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

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

Additions

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

Disposals

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

Subsequent costs

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

Depreciation

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

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

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

Provisions

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

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

Restructuring

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

Onerous contracts

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

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

Revenue and expense recognition

Revenues and corresponding direct expenses for Lotto (including Lotto Strike and Lotto Powerball), Keno, Bullseye, Play 3 and Big Wednesday are recognised when each lottery is drawn. Instant Kiwi revenue and corresponding direct expenses are recognised when retailers activate ticket stock prior to sale to players, making those tickets part of a game.

Taxation

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

The following taxes are paid by Lotto New Zealand:

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

2. Revenues

	30/06/15 Actual \$000	30/06/15 Budget \$000	30/06/14 Actual \$000
Sales			
Lotto, Lotto Strike and Powerball	545,423	666,745	631,472
Instant Kiwi	146,952	165,900	150,877
Big Wednesday	151,988	120,360	159,617
Keno	29,471	33,800	29,465
Bullseye	16,620	16,420	17,335
Play3	3,219	6,500	-
Sales including GST	893,673	1,009,725	988,766
Less GST	54,556	61,636	59,996
Sales excluding GST	839,117	948,089	928,770
Other revenue			
Telecommunications and terminal maintenance cost recovery	5,637	5,641	5,775
Retailers' establishment fees	730	934	875
Interest	2,063	1,602	2,631
Sundry	991	1,673	3,955
	9,421	9,850	13,236
Total revenues	848,538	957,939	942,006

3. Cost of sales

	30/06/15 Actual \$000	30/06/15 Budget \$000	30/06/14 Actual \$000
Lottery duty	49,152	55,535	54,382
Problem gambling levy	1,154	1,418	1,337
Retailers' commission and MyLotto transaction fees	58,239	66,546	64,984
Prizes paid and payable	437,335	500,352	486,411
Prize reserve account	35,961	36,829	39,295
Ticket costs	4,165	5,641	4,778
Cost of goods sold to retailers	1,161	1,650	3,894
	587,167	667,971	655,081

4. Property, plant and equipment depreciation

	30/06/15 Actual \$000	30/06/15 Budget \$000	30/06/14 Actual \$000
The total depreciation charge for each class of assets is as follows:			
On cost			
Gaming computers and associated equipment	3,754	4,478	3,243
Other computer hardware	712	464	587
Leasehold improvements	254	190	3
Furniture and fittings	108	241	100
Motor vehicles	196	182	219
Office equipment	30	50	14
	5,054	5,605	4,166
On cost or valuation			
Building (Khyber Pass Road, Auckland)	-	-	89
	5,054	5,605	4,255

5. Other expenses

	30/06/15 Actual \$000	30/06/15 Budget \$000	30/06/14 Actual \$000
Fees paid to Audit New Zealand			
- Audit of annual financial statements	180	175	175
- Scrutineering function	124	180	125
- Review engagement for six-monthly interim accounts	14	-	-
Board members' fees	148	148	148
Interest	8	3	16
Premises costs	1,532	1,872	1,736
IT and telecommunications	6,561	4,283	3,852
Other	4,332	6,077	4,749
	12,898	12,738	10,801

6. Cash and cash equivalents

	30/06/15 \$000	30/06/14 \$000
Cash and bank balance	13,160	11,607
Short-term deposits	17,000	59,000
Accrued interest	20	167
	30,180	70,774

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

7. Term deposits

	30/06/15 \$000	30/06/14 \$000
Term deposits	20,500	28,000
Accrued interest	51	167
	20,551	28,167

8. Fair value of investments

	30/06/15 Carrying amount \$000	30/06/15 Fair value \$000	30/06/15 Purchase yield	30/06/14 Carrying amount \$000	30/06/14 Fair value \$000	30/06/14 Purchase yield
The fair value of investments (based on quoted market prices) together with their maturity terms and purchase yields are as follows:						
Maturing within one year	37,571	37,552	3.93%	87,334	87,284	4.04%
	37,571	37,552	3.93%	87,334	87,284	4.04%
Represented in the statement of financial position as:						
Short-term deposits - maturities up to three months from acquisition date	17,020	17,018		59,167	59,167	
Term-deposits - maturities of more than three months from acquisition date	20,551	20,534		28,167	28,117	
	37,571	37,552		87,334	87,284	

9. Debtors and other receivables

	30/06/15 \$000	30/06/14 \$000
Due from retailers for current games	135	4,887
Trade receivables	8,026	384
	8,161	5,271

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

Lotto New Zealand payment terms are that accounts are due on the 20th of the month following invoicing. All receivables not settled on the 20th of the month following invoicing are considered to be past due. The carrying value of debtors and other receivables approximates their fair value. There is no impairment of receivables.

	30/06/15 \$000	30/06/14 \$000
Not past due	7,871	4,947
Past due 1-30 days	64	185
Past due 31-60 days	45	69
Past due 61-90 days	27	58
Past due > 91 days	154	12
	8,161	5,271

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

10. Inventories

	30/06/15 \$000	30/06/14 \$000
Instant Kiwi ticket stock	2,071	2,070
Other stock	1,133	2,085
	3,204	4,155

No inventories are pledged as security for liabilities.

11. Property, plant and equipment

	30/06/15 \$000	30/06/14 \$000
Land - Khyber Pass Road, Auckland		
Valuation	-	2,500
Disposals	-	(2,500)
Carrying amount at end of year	-	-
Building - Khyber Pass Road, Auckland		
Cost or valuation	-	5,379
Additions	-	177
Disposals	-	(5,556)
Valuation at end of year	-	-
Accumulated depreciation at beginning of year	-	1,035
Depreciation for the year	-	89
Disposals	-	(1,124)
Accumulated depreciation at end of year	-	-
Carrying amount at end of year	-	-
Leasehold improvements		
Cost at beginning of year	1,110	999
Additions	1,901	111
Disposals	(968)	-
Cost at end of year	2,043	1,110
Accumulated depreciation at beginning of year	1,002	999
Depreciation for the year	254	3
Disposals	(968)	-
Accumulated depreciation at end of year	288	1,002
Carrying amount at end of year	1,755	108

	30/06/15 \$000	30/06/14 \$000
Gaming computer equipment		
Cost at beginning of year	44,335	36,376
Additions	7,403	8,759
Disposals	(6,492)	(800)
Cost at end of year	45,246	44,335
Accumulated depreciation at beginning of year	33,201	30,758
Depreciation for the year	3,754	3,243
Disposals	(6,480)	(800)
Accumulated depreciation at end of year	30,475	33,201
Carrying amount at end of year	14,771	11,134
Other computer hardware		
Cost at beginning of year	4,594	4,216
Additions	906	429
Disposals	(2,219)	(51)
Cost at end of year	3,281	4,594
Accumulated depreciation at beginning of year	3,725	3,189
Depreciation for the year	712	587
Disposals	(2,130)	(51)
Accumulated depreciation at end of year	2,307	3,725
Carrying amount at end of year	974	869
Draw equipment		
Cost at beginning of year	501	661
Additions	-	-
Disposals	-	(160)
Cost at end of year	501	501
Accumulated depreciation at beginning of year	501	661
Depreciation for the year	-	-
Disposals	-	(160)
Accumulated depreciation at end of year	501	501
Carrying amount at end of year	-	-
Furniture and fittings		
Cost at beginning of year	1,218	1,212
Additions	330	24
Disposals	(431)	(18)
Cost at end of year	1,117	1,218
Accumulated depreciation at beginning of year	981	894
Depreciation for the year	108	100
Disposals	(371)	(13)
Accumulated depreciation at end of year	718	981
Carrying amount at end of year	400	238

11. Property, plant and equipment - continued

	30/06/15 \$000	30/06/14 \$000
Motor vehicles		
Cost at beginning of year	847	907
Additions	253	94
Disposals	(336)	(154)
Cost at end of year	764	847
Accumulated depreciation at beginning of year	441	362
Depreciation for the year	196	219
Disposals	(261)	(140)
Accumulated depreciation at end of year	376	441
Carrying amount at end of year	388	406
Office equipment		
Cost at beginning of year	750	757
Additions	88	36
Disposals	(160)	(43)
Cost at end of year	678	750
Accumulated depreciation at beginning of year	689	709
Depreciation for the year	30	14
Disposals	(158)	(34)
Accumulated depreciation at end of year	561	689
Carrying amount at end of year	117	61
Work in progress		
Cost at beginning of year	2,307	5,374
Additions	1,629	2,307
Capitalised	(2,307)	(5,374)
Carrying amount at end of year	1,629	2,307
Total property, plant and equipment	20,034	15,123

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

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

12. Computer software

	30/06/15 \$000	30/06/14 \$000
In use		
Cost at beginning of year	11,263	10,184
Additions	2,660	1,180
Disposals	-	(101)
Cost at end of year	13,923	11,263
Accumulated amortisation at beginning of year	7,040	5,916
Amortisation for the year	1,597	1,225
Disposals	-	(101)
Accumulated amortisation at end of year	8,637	7,040
Carrying amount at end of year	5,286	4,223
Work in progress		
Cost at beginning of year	789	121
Additions	561	769
Capitalised	(789)	(101)
Carrying amount at end of year	561	789
Total computer software	5,847	5,012

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

	30/06/15 \$000	30/06/14 \$000
Moneys received or receivable for games not drawn at balance date	3,570	2,923
Prize liabilities	24,173	39,268
MyLotto player accounts	3,424	3,191
Trade creditors	7,888	10,470
Payable to the NZ Lottery Grants Board	2,203	10,757
Accrued expenses	8,593	3,605
	49,851	70,214

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

Credit facilities

Lotto New Zealand has a bank overdraft facility of \$2 million with Westpac Banking Corporation. The interest rate on the overdraft facility at 30 June 2015, if utilised, was 9.20% per annum (2014: 9.20%).

14. Annuity prize liabilities

	30/06/15 Amounts payable \$000	30/06/15 Fair value \$000	30/06/14 Amounts payable \$000	30/06/14 Fair value \$000
Short-term liabilities	50	50	147	147
Long-term liabilities	-	-	53	45
	50	50	200	192

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

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

15. Prize reserve account

	30/06/15 \$000	30/06/14 \$000
Opening balance	39,001	43,162
Amounts transferred based on game sales	35,961	39,293
Interest	2,067	2,854
Unclaimed prizes over 12 months old	9,347	10,974
Transfers to prize pools	(71,128)	(57,282)
	15,248	39,001

16. Employee entitlements

	30/06/15 \$000	30/06/14 \$000
Annual leave	648	629
	648	629

17. Provision

	30/06/15 \$000	30/06/14 \$000
Provision at the beginning of the year	549	2,653
Additional provision made during the year	50	-
Charged against the provision	(113)	(2,000)
Release of the provision during the year	-	(104)
Provision at end of the year	486	549

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

	30/06/15 \$000	30/06/14 \$000
The net movement in provision for retail upgrades is as follows:		
Provision at the beginning of the year	549	1,462
Charged against the provision	(113)	(913)
Provision at end of the year	436	549

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

	30/06/15 \$000	30/06/14 \$000
The net movement in provision for restructure is as follows:		
Provision at the beginning of the year	-	1,191
Additional provision made during the year	50	-
Charged against the provision	-	(1,087)
Release of provision during the year	-	(104)
Provision at end of the year	50	-

In June 2015 the retail team was restructured which resulted in creation of new positions within the team. The main costs associated with this provision relate to recruitment costs for filling these new positions.

18. Equity

	30/06/15 \$000	30/06/14 \$000
Retained earnings		
Opening balance	23,113	27,749
Transfer from land revaluation on sale of Auckland property	-	364
Deficit for the year	-	(5,000)
Balance at 30 June	23,113	23,113
Land revaluation reserve		
Opening balance	-	364
Transfer to retained earnings on sale of Auckland property	-	(364)
Balance at 30 June	-	-
Cash flow hedge reserve		
Opening balance	(849)	362
Movement in fair value of cash flow hedges 30 June	849	(1,211)
Balance at 30 June	-	(849)
Total equity	23,113	22,264

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

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

	30/06/15 \$000	30/06/14 \$000
Profit/(loss) after distribution to the NZ Lottery Grants Board	-	(5,000)
Adjustments for non-cash items:		
Depreciation of property, plant and equipment	5,054	4,255
Amortisation of computer software	1,597	1,225
Changes in assets and liabilities		
(Increase)/decrease in receivables for current games	4,752	4,038
(Increase)/decrease in trade receivables	(7,642)	790
(Increase)/decrease in prepayments	3,955	(541)
(Increase)/decrease in stock	951	(636)
Increase/(decrease) in moneys received or receivable for games	647	646
Increase/(decrease) in prize liabilities	(15,095)	98
Increase/(decrease) in trade creditors	2,639	(2,050)
Increase/(decrease) in provisions	(63)	(2,104)
Increase/(decrease) in employee entitlements	19	(274)
Increase/(decrease) in lease incentive	(176)	-
Increase/(decrease) in prize reserve account	(23,753)	(4,161)
Investing activity items		
Interest receipts	(4,130)	(5,485)
(Gain)/loss on sale of property, plant and equipment	(14)	(50)
Financing activity items		
Annuity prize liabilities	97	100
Lottery Grants Board payables	198,603	231,157
Net cash inflow from operating activities	167,441	222,008

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

	30/06/15 \$000	30/06/14 \$000
Payment of prizes	39,460	78,456
MyLotto player funds	3,613	3,290
Total restricted amount	43,073	81,746

21. Related party information

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

Significant transactions with government-related entities

The Gambling Act 2003 requires that Lotto New Zealand is to distribute all profits to the New Zealand Lottery Grants Board unless the Minister of Internal Affairs consents to a request from the Board for a retention. No such amounts were retained in the year or the previous year. Distribution in respect of the 2015 financial year amounted to \$198.6 million (2014: \$231.2 million of which \$226.2 million was distributed from profit for the year and \$5.0 million by way of a special distribution from the sale of the Auckland building).

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

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

Lotto New Zealand also purchases goods and services from entities controlled, significantly influenced, or jointly controlled by the Crown. Purchases from these government-related entities for the year ended 30 June 2015 totalled \$6.8 million (2014: \$6.1 million). Key entities include Air New Zealand, New Zealand Customs, New Zealand Post, and Television New Zealand.

There were no other related-party transactions during the year.

22. Key management personnel compensation

	30/06/15 \$000	30/06/14 \$000
Salaries and other short-term employee benefits	2,072	2,395
Termination benefits	-	262
	2,072	2,657

Key management personnel include all Board members, the Chief Executive, and the executive team. The size of the executive team at the end of the reporting period was eight executives (2014: six members). During the year two new members joined the executive team in October and December 2014, replacing two members who left the business in the previous year.

23. Employee remuneration

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

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

Total remuneration	Number of employees	
	30/06/15	30/06/14
\$100,000 to \$109,999	11	8
\$110,000 to \$119,999	4	7
\$120,000 to \$129,999	4	2
\$130,000 to \$139,999	5	2
\$140,000 to \$149,999	1	4
\$150,000 to \$159,999	4	2
\$160,000 to \$169,999	3	1
\$170,000 to \$179,999	-	1
\$180,000 to \$189,999	1	1
\$190,000 to \$199,999	-	1
\$200,000 to \$209,999	1	-
\$230,000 to \$239,999	-	1
\$240,000 to \$249,999	-	1
\$250,000 to \$259,999	1	-
\$270,000 to \$279,999	1	-
\$300,000 to \$309,999	-	1
\$310,000 to \$319,999	-	1
\$330,000 to \$339,999	1	-
\$400,000 to \$409,999	-	1
\$430,000 to \$439,999	-	1
\$450,000 to \$459,999	1	-

During the year seven people ceased to be employees and received a total of \$97,368 as compensation or other benefits in relation to the cessation of their employment (2014: three people, \$301,600). This information is provided pursuant to section 152, subsection 1(d) of the Crown Entities Act 2004.

24. Board members' fees

	30/06/15 \$000	30/06/14 \$000
Miranda Burdon	24	24
Mark Gilbert (appointed May 2015)	4	-
Richard Holden	24	24
Richard Janes, Deputy Chair (resigned April 2015)	25	29
Judy Kirk, Chair	47	47
Tony Mossman, Deputy Chair (appointed May 2015)	24	24
	148	148

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

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

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

25. Categories of financial assets and liabilities

	30/06/15 \$000	30/06/14 \$000
Loans and receivables		
Cash and cash equivalents	30,180	70,774
Term deposits	20,551	28,167
Debtors and other receivables	8,161	5,271
	58,892	104,212
Financial liabilities measured at amortised cost		
Creditors and other payables	49,851	70,214
	49,851	70,214

26. Financial instrument risks

Lotto New Zealand's activities expose it to a variety of financial instrument risks, including market risk, credit risk and liquidity risk. Lotto New Zealand has policies to manage the risks associated with financial instruments. These policies do not allow any transactions that are speculative in nature.

Credit quality of financial assets

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

	30/06/15 \$000	30/06/14 \$000
Counterparties with credit ratings		
Cash at bank and term deposits		
AA-	43,731	84,941
A+	7,000	14,000
Total cash at bank and term deposits	50,731	98,941
Counterparties without credit ratings		
Debtors and other receivables		
Existing counterparty with no defaults in the past	8,161	5,271
Total debtors and other receivables	8,161	5,271

Market risk

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

Credit risk

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

Liquidity risk

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

27. Derivative financial instruments and hedging

	30/06/15 \$000	30/06/14 \$000
Current assets		
Forward currency contracts - cash flow hedges	-	-
Non-current assets		
Forward currency contracts - cash flow hedges	-	-
	-	-
Current liabilities		
Forward currency contracts - cash flow hedges	-	849
	-	849

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

Lotto New Zealand formally designates hedging instruments to an underlying exposure and details the risk management objectives and strategies for undertaking hedge transactions. Lotto New Zealand assesses at inception and on a six-monthly basis thereafter, as to whether the derivative financial instrument used in the hedging transaction are effective at offsetting the

27. Derivative financial instruments and hedging continued

risks they are designed to hedge. Due to the high effectiveness between the hedging instrument and the underlying exposure being hedged, value changes in derivatives are generally offset by changes in fair value or cash flows of the underlying exposure.

During the year all forward exchange contracts held by Lotto New Zealand to hedge future capital commitments were exercised. The derivatives entered into were straightforward over-the-counter instruments with liquid markets. The contracts were timed to mature as payments were scheduled to be made to suppliers. Therefore the notional principal amounts of outstanding forward exchange contracts are NZD nil (2014: NZD 7,116,565). The foreign currency amounts were USD nil (2014: USD 5,353,000).

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

28. Capital management

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

Lotto New Zealand is subject to the financial management and accountability provisions of the Crown Entities Act 2004, which impose restrictions in relation to borrowings, acquisition of securities, issuing guarantees and indemnities, and the use of derivatives.

29. Events after the statement of financial position date

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

30. Major budget variations

Sales including GST amounted to \$893.7 million, a shortfall against budget of \$116.1 million (or 11.5%). This year's sales have been negatively affected by the unusually high number of short jackpot cycles, particularly on Powerball. Sales on Lotto, Powerball and Strike (Lotto family) have contributed to more than the total sales variance overall as a consequence of the lower than expected average Powerball jackpot for the year.

Lotto family sales were \$121.3 million below budget, primarily as a result of the abnormally high number of times Powerball has been won through the year. Last year for example, Powerball was won just five times, in 2014/15 it was won 11 times. The number of weeks with a Powerball offer greater than \$15 million was 16 last year, in 2014/15 it was five. With lower than average jackpots throughout the year, sales did not gain the momentum to generate the sales we needed to achieve budget. Furthermore, the budget for 2014/15 included an uplift in Lotto family from the fourth quarter as it was assumed that a Lotto family offer would replace Big Wednesday in the middle of the week, however it was delayed until the second quarter of 2015/16.

Big Wednesday sales were ahead of budget by \$31.6 million. However, as noted above, the budget assumed the game would be discontinued from quarter four. Instant Kiwi sales fell short on budget by \$18.9 million. Part of this variance is attributable to the lower foot traffic passing through our retail network due to a less compelling Powerball offer. Sales of Keno and Play3 were both down on budget by \$4.3 million and \$3.3 million respectively.

Operating expenses for the year came in below budget by \$2.1 million, or 3.3%, mainly as a result of costs attributable to the launch of Lotto family from the fourth quarter not being required.

The resultant net profit of \$198.7 million was \$26.5 million (or 11.8%) lower than budget, reflecting the sales percentage variance for the year.

Directory

Auckland office

Level 1, 73 Remuera Road
Remuera, Auckland 1050
PO Box 8929, Symonds Street
Auckland 1150

Telephone 09 356 3800

Wellington office

Level 1
The Woolstore Design Centre
258 Thorndon Quay
PO Box 9448
Wellington 6011

Christchurch office

66-68 Mandeville Street
PO Box 8609
Riccarton
Christchurch 8011

Contact

Website mylotto.co.nz
Email info@lottonz.co.nz
Telephone 0800 695 6886

Board members

Judy Kirk, ONZM
Chair

Tony Mossman
Deputy Chair

Miranda Burdon

Mark Gilbert

Richard Holden

Executive team

Wayne Pickup
Chief Executive

Dan Balasoglou
Chief Financial Officer

Ben Coney
Chief Innovation and Technology Officer

Guy Cousins
Chief Marketing Officer

Kathryn Haworth
General Manager, Strategy

Chris Lyman
Chief Operating Officer

Amie McKinlay
General Manager,
People, Culture and Brand

Emilia Mazur
General Manager,
Corporate Communications
and Social Responsibility



mylotto.co.nz

PO Box 8929, Symonds Street
Auckland 1150
Level 1, 73 Remuera Road
Remuera, Auckland 1050
New Zealand