

# Annual Report 2014/15

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

**Lotto**  
New Zealand



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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



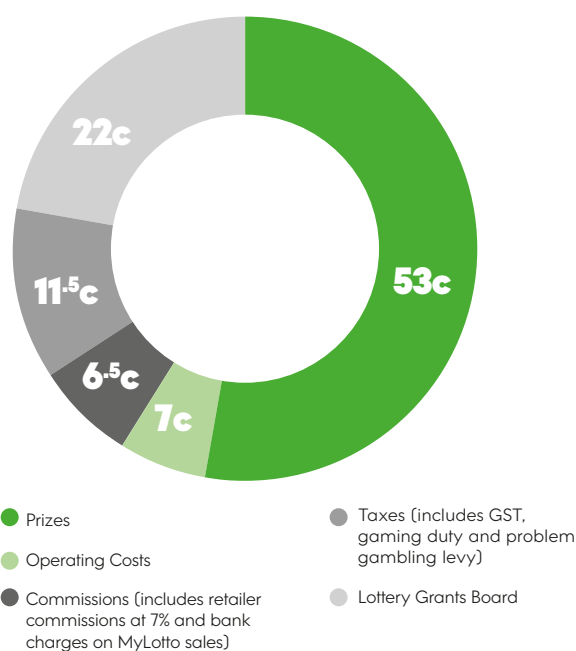
**Tony Mossman**  
Deputy Chair

## 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\*



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



**Miranda Burdon**



**Mark Gilbert**



**Richard Holden**

# Chair and Chief Executive's report

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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

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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 2<sup>nd</sup> 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

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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.



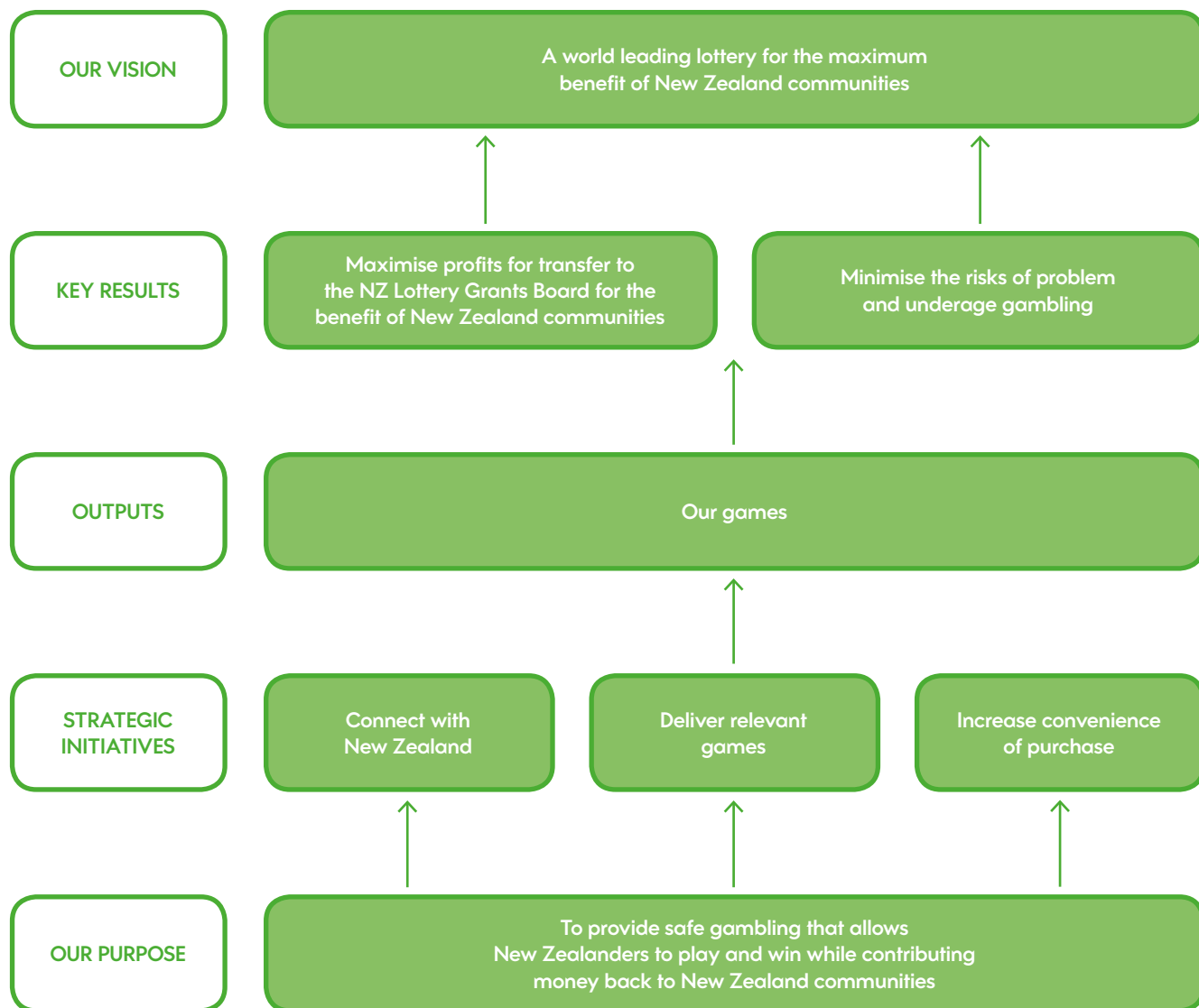
**Judy Kirk**  
Chair  
30 September 2015



**Wayne Pickup**  
Chief Executive  
30 September 2015

# Our performance

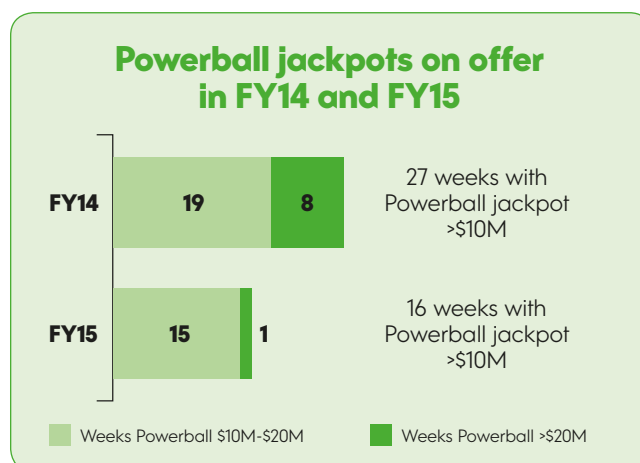
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## Lotto New Zealand performance drivers

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<br>2014/15 | Target<br>2014/15 | Actual<br>2013/14  | Actual<br>2012/13 |
|--|-------------------|-------------------|--------------------|-------------------|
| <b>Profit maximisation</b>   |                   |                   |                    |                   |
| Sales (\$m)  | \$893.7           | 1,009.7           | 988.8              | 946.8             |
| Operating expenses(\$m) <sup>1</sup>   | \$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 <sup>2</sup> | 201.8             |
| <b>Harm minimisation</b>   |                   |                   |                    |                   |
| Count of 'primary mode of gambling' citations by new problem gamblers who received full intervention treatment and new affected others | 270 <sup>3</sup>  | <300              | 324                | 410               |
| Citations per 10,000 players <sup>4</sup>  | 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.

<sup>1</sup> Operating expenses as a percentage of sales.

<sup>2</sup> 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.

<sup>3</sup> 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.

<sup>4</sup> 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<br>2014/15 | Target<br>2014/15 | Actual<br>2013/14 | Actual<br>2012/13    |
|---|-------------------|-------------------|-------------------|----------------------|
| <b>Connect with New Zealand</b>   |                   |                   |                   |                      |
| Average weekly number of customers purchasing any Lotto game <sup>5</sup> | 1,228,458         | 1,300,000         | 1,289,867         | 943,703 <sup>6</sup> |
| Contactable players <sup>7</sup>  | 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 2<sup>nd</sup> 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.

<sup>5</sup> Based on average number of weekly transactions

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

<sup>7</sup> 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<br>2014/15 | Target<br>2014/15  | Actual<br>2013/14 | Actual<br>2012/13 |
|---|-------------------|--------------------|-------------------|-------------------|
| <b>Deliver relevant games</b>                 |                   |                    |                   |                   |
| <b>Lotto/Powerball/Strike</b>                 |                   |                    |                   |                   |
| Sales (\$m)                                   | 545.4             | 666.7 <sup>8</sup> | 631.5             | 562.9             |
| Gross margin (\$m)                            | 136.7             | 178.3              | 172.5             | 137.8             |
| <b>Big Wednesday</b>                          |                   |                    |                   |                   |
| Sales (\$m)                                   | 152.0             | 120.4 <sup>9</sup> | 159.6             | 191.4             |
| Gross margin (\$m)                            | 50.4              | 35.6               | 53.1              | 65.1              |
| <b>Instant Kiwi</b>                           |                   |                    |                   |                   |
| Sales (\$m)                                   | 147.0             | 165.9              | 150.9             | 146.1             |
| Gross margin (\$m)                            | 22.1              | 22.6               | 22.4              | 21.2              |
| <b>Other games</b>                            |                   |                    |                   |                   |
| Sales (\$m)                                   | 49.3              | 56.7               | 46.8              | 46.3              |
| Gross margin (\$m)                            | 12.4              | 13.6               | 11.4              | 11.8              |
| <b>Launch new game</b>                        |                   |                    |                   |                   |
| 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<br>2014/15 | Target<br>2014/15 | Actual<br>2013/14 | Actual<br>2012/13 |
|---|-------------------|-------------------|-------------------|-------------------|
| <b>Increased convenience of purchase</b>        |                   |                   |                   |                   |
| 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 <sup>10</sup>           | 80%               | 80%               | 78%               | 74%               |
| Digital sales                                   | 75.5              | 82.7              | 73.9              | 58.7              |
| Active MyLotto players <sup>11</sup>            | 94,980            | 110,000           | 92,006            | 76,374            |
| MyLotto usage <sup>12</sup>                     | 495,935           | 490,000           | 470,034           | 386,000           |
| MyLotto mobile usage <sup>13</sup>              | 225,345           | 200,000           | 186,133           | 95,467            |
| MyLotto ticket-schecker app usage <sup>14</sup> | 99,223            | 80,000            | N/A               | N/A               |

<sup>8</sup> 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.

<sup>9</sup> 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.

<sup>10</sup> Supermarkets include Countdown, New World, Pak n Save and Fresh Choice

<sup>11</sup> Average number of MyLotto players played in the last month

<sup>12</sup> Average number of weekly visits to the MyLotto site

<sup>13</sup> Average number of weekly visits to MyLotto from a mobile device

<sup>14</sup> 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 2<sup>nd</sup> Chance draw for Instant Kiwi, which can also be entered via the MyLotto site. The 2<sup>nd</sup> 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<br>2014/15 | Target<br>2014/15 | Actual<br>2013/14 | Actual<br>2012/13 |
|---|-------------------|-------------------|-------------------|-------------------|
| <b>Organisational capability</b>            |                   |                   |                   |                   |
| 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.





## More ways to win with Instant Kiwi

**Instant Kiwi players have won big in more ways than one this year, as the introduction of 2<sup>nd</sup> 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 2<sup>nd</sup> 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.

# 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 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

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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

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- 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

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- 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

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- 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        |             |
| <b>Gender</b>   |            |             |
| Women   | 70         | 56%         |
| Men   | 54         | 44%         |
| <b>Senior management</b><br>(Chief Executive and direct reports)                                    |            |             |
| Women   | 4          | 44%         |
| Men   | 5          | 56%         |
| <b>Management</b><br>(Of functional teams, more than five reports, not including senior management) |            |             |
| Women   | 4          | 44%         |
| Men   | 5          | 56%         |
| <b>Age</b>  |            |             |
| 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%          |
| <b>Total</b>  | <b>124</b> | <b>100%</b> |
| <b>Ethnicity distribution</b>   |            |             |
| 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

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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

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- 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

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- 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

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- 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

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- 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
- 2<sup>nd</sup> 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 2<sup>nd</sup> 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<br>2014/15 | Target<br>2014/15 | Actual<br>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 <sup>1</sup>  | 18.3<br>(Low)     | <20<br>(Low)      | 18.4<br>(Low)     |
| Advertising standards complaints upheld  | Nil               | Nil               | Nil               |
| Retailer confidence in underage and problem gambling training <sup>2</sup>   | 79%               | 84%               | New measure       |
| Brand health <sup>3</sup>  | 63%               | 70%               | New measure       |

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

<sup>2</sup> Lotto New Zealand retailer engagement survey 2015

<sup>3</sup> Regular customer research tracks players affinity for Lotto New Zealand's brand.

# Statement of performance

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

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## 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

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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

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### 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

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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<br>Actual<br>\$000 | 30/06/15<br>Budget<br>\$000 | 30/06/14<br>Actual<br>\$000 |
|---|------|-----------------------------|-----------------------------|-----------------------------|
| <b>Revenues</b>   |      |                             |                             |                             |
| Revenues  | 2    | 848,538                     | 957,939                     | 942,006                     |
| Cost of sales   | 3    | 587,167                     | 667,971                     | 655,081                     |
| <b>Gross profit</b>   |      | <b>261,371</b>              | <b>289,968</b>              | <b>286,925</b>              |
| <b>Expenses</b>   |      |                             |                             |                             |
| 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                      |
| <b>Total expenses</b>   |      | <b>62,768</b>               | <b>64,839</b>               | <b>60,768</b>               |
| <b>Profit</b>   |      | <b>198,603</b>              | <b>225,129</b>              | <b>226,157</b>              |
| 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)                     |
| <b>Total comprehensive income/(expense)</b>                               |      | <b>849</b>                  | <b>(200)</b>                | <b>(6,211)</b>              |

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

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<br>Actual<br>\$000 | 30/06/15<br>Budget<br>\$000 | 30/06/14<br>Actual<br>\$000 |
|-------------------------------------|------|-----------------------------|-----------------------------|-----------------------------|
| <b>Assets</b>                       |      |                             |                             |                             |
| <b>Current assets</b>               |      |                             |                             |                             |
| 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                       |
| <b>Total current assets</b>         |      | <b>65,456</b>               | <b>90,958</b>               | <b>115,680</b>              |
| <b>Non-current assets</b>           |      |                             |                             |                             |
| Property, plants and equipment      | 11   | 20,034                      | 17,993                      | 15,123                      |
| Computer software                   | 12   | 5,847                       | 9,466                       | 5,012                       |
| <b>Total non-current assets</b>     |      | <b>25,881</b>               | <b>27,459</b>               | <b>20,135</b>               |
| <b>Total assets</b>                 |      | <b>91,337</b>               | <b>118,417</b>              | <b>135,815</b>              |
| <b>Liabilities</b>                  |      |                             |                             |                             |
| <b>Current liabilities</b>          |      |                             |                             |                             |
| 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                         |
| <b>Total current liabilities</b>    |      | <b>51,270</b>               | <b>71,805</b>               | <b>72,564</b>               |
| <b>Long-term liabilities</b>        |      |                             |                             |                             |
| Annuity prize liabilities           | 14   | -                           | -                           | 45                          |
| Lease incentive                     | 11   | 1,706                       | 1,905                       | 1,941                       |
| <b>Total long-term liabilities</b>  |      | <b>1,706</b>                | <b>1,905</b>                | <b>1,986</b>                |
| <b>Prize reserve account</b>        | 15   | <b>15,248</b>               | <b>16,594</b>               | <b>39,001</b>               |
| <b>Total liabilities</b>            |      | <b>68,224</b>               | <b>90,304</b>               | <b>113,551</b>              |
| <b>Equity</b>                       |      |                             |                             |                             |
| Retained earnings                   | 18   | 23,113                      | 28,113                      | 23,113                      |
| Cash flow hedge reserve             | 27   | -                           | -                           | (849)                       |
| <b>Total equity</b>                 |      | <b>23,113</b>               | <b>28,113</b>               | <b>22,264</b>               |
| <b>Total liabilities and equity</b> |      | <b>91,337</b>               | <b>118,417</b>              | <b>135,815</b>              |

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<br>Actual<br>\$000 | 30/06/15<br>Budget<br>\$000 | 30/06/14<br>Actual<br>\$000 |
|--|-----------|-----------------------------|-----------------------------|-----------------------------|
| <b>Cash flows from operating activities</b>      |           |                             |                             |                             |
| 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)                    |
| <b>Net cash flow from operating activities</b>   | <b>19</b> | <b>167,441</b>              | <b>211,006</b>              | <b>222,008</b>              |
| <b>Cash flows from investing activities</b>      |           |                             |                             |                             |
| 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)                     |
| <b>Net cash flow from investing activities</b>   |           | <b>(727)</b>                | <b>(9,139)</b>              | <b>40,460</b>               |
| <b>Cash flows from financing activities</b>      |           |                             |                             |                             |
| Discharge of annuity prize liabilities           |           | (150)                       | (150)                       | (335)                       |
| Payments to the NZ Lottery Grants Board          |           | (207,157)                   | (225,129)                   | (238,293)                   |
| <b>Net cash flow from financing activities</b>   |           | <b>(207,307)</b>            | <b>(225,279)</b>            | <b>(238,628)</b>            |
| Net (decrease)/increase in cash balances         |           | (40,594)                    | (23,412)                    | 23,840                      |
| Opening cash and cash equivalents balance        |           | 70,774                      | 97,148                      | 46,934                      |
| <b>Closing cash and cash equivalents balance</b> | <b>6</b>  | <b>30,180</b>               | <b>73,736</b>               | <b>70,774</b>               |

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<br>Actual<br>\$000 | 30/06/15<br>Budget<br>\$000 |
|---|-----------------------------|-----------------------------|
| <b>Capital commitments approved and contracted</b>          |                             |                             |
| Property, plant and equipment                               | 182                         | 8,267                       |
| <b>Total capital commitments</b>                            | <b>182</b>                  | <b>8,267</b>                |
| <b>Non-cancellable operating lease commitments, payable</b> |                             |                             |
| 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                       |
| <b>Total non-cancellable operating lease commitments</b>    | <b>6,966</b>                | <b>7,607</b>                |
| <b>Other non-cancellable contracts</b>                      |                             |                             |
| 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                         |
| <b>Total other non-cancellable contracts</b>                | <b>17,495</b>               | <b>17,333</b>               |
| <b>Total commitments</b>                                    | <b>24,643</b>               | <b>33,207</b>               |

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<br>Actual<br>\$000 | 30/06/15<br>Budget<br>\$000 | 30/06/14<br>Actual<br>\$000 |
|---|-----------------------------|-----------------------------|-----------------------------|
| <b>Sales</b>  |                             |                             |                             |
| 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                       | -                           |
| <b>Sales including GST</b>                                | <b>893,673</b>              | <b>1,009,725</b>            | <b>988,766</b>              |
| Less GST  | 54,556                      | 61,636                      | 59,996                      |
| <b>Sales excluding GST</b>                                | <b>839,117</b>              | <b>948,089</b>              | <b>928,770</b>              |
| <b>Other revenue</b>                                      |                             |                             |                             |
| 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                      |
| <b>Total revenues</b>                                     | <b>848,538</b>              | <b>957,939</b>              | <b>942,006</b>              |

**3. Cost of sales**

|  | 30/06/15<br>Actual<br>\$000 | 30/06/15<br>Budget<br>\$000 | 30/06/14<br>Actual<br>\$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                       |
|  | <b>587,167</b>              | <b>667,971</b>              | <b>655,081</b>              |

#### 4. Property, plant and equipment depreciation

|   | 30/06/15<br>Actual<br>\$000 | 30/06/15<br>Budget<br>\$000 | 30/06/14<br>Actual<br>\$000 |
|---|-----------------------------|-----------------------------|-----------------------------|
| The total depreciation charge for each class of assets is as follows: |                             |                             |                             |
| <b>On cost</b>  |                             |                             |                             |
| 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                          |
|   | <b>5,054</b>                | <b>5,605</b>                | <b>4,166</b>                |
| <b>On cost or valuation</b>   |                             |                             |                             |
| Building (Khyber Pass Road, Auckland)                                 | -                           | -                           | 89                          |
|   | <b>5,054</b>                | <b>5,605</b>                | <b>4,255</b>                |

#### 5. Other expenses

|  | 30/06/15<br>Actual<br>\$000 | 30/06/15<br>Budget<br>\$000 | 30/06/14<br>Actual<br>\$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                       |
|  | <b>12,898</b>               | <b>12,738</b>               | <b>10,801</b>               |

#### 6. Cash and cash equivalents

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

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<br>\$000 | 30/06/14<br>\$000 |
|------------------|-------------------|-------------------|
| Term deposits    | 20,500            | 28,000            |
| Accrued interest | 51                | 167               |
|                  | <b>20,551</b>     | <b>28,167</b>     |

## 8. Fair value of investments

|  | 30/06/15<br>Carrying<br>amount<br>\$000 | 30/06/15<br>Fair<br>value<br>\$000 | 30/06/15<br>Purchase<br>yield | 30/06/14<br>Carrying<br>amount<br>\$000 | 30/06/14<br>Fair<br>value<br>\$000 | 30/06/14<br>Purchase<br>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%                         |
|  | <b>37,571</b>                           | <b>37,552</b>                      | <b>3.93%</b>                  | <b>87,334</b>                           | <b>87,284</b>                      | <b>4.04%</b>                  |
| 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                             |                               |
|  | <b>37,571</b>                           | <b>37,552</b>                      |                               | <b>87,334</b>                           | <b>87,284</b>                      |                               |

## 9. Debtors and other receivables

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

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<br>\$000 | 30/06/14<br>\$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                |
|                     | <b>8,161</b>      | <b>5,271</b>      |

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

## 10. Inventories

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

No inventories are pledged as security for liabilities.

## 11. Property, plant and equipment

|   | 30/06/15<br>\$000 | 30/06/14<br>\$000 |
|---|-------------------|-------------------|
| <b>Land - Khyber Pass Road, Auckland</b>      |                   |                   |
| Valuation                                     | -                 | 2,500             |
| Disposals                                     | -                 | (2,500)           |
| <b>Carrying amount at end of year</b>         | <b>-</b>          | <b>-</b>          |
| <b>Building - Khyber Pass Road, Auckland</b>  |                   |                   |
| 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       | -                 | -                 |
| <b>Carrying amount at end of year</b>         | <b>-</b>          | <b>-</b>          |
| <b>Leasehold improvements</b>                 |                   |                   |
| 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             |
| <b>Carrying amount at end of year</b>         | <b>1,755</b>      | <b>108</b>        |

|   | 30/06/15<br>\$000 | 30/06/14<br>\$000 |
|---|-------------------|-------------------|
| <b>Gaming computer equipment</b>              |                   |                   |
| 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            |
| <b>Carrying amount at end of year</b>         | <b>14,771</b>     | <b>11,134</b>     |
| <b>Other computer hardware</b>                |                   |                   |
| 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             |
| <b>Carrying amount at end of year</b>         | <b>974</b>        | <b>869</b>        |
| <b>Draw equipment</b>                         |                   |                   |
| 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               |
| <b>Carrying amount at end of year</b>         | <b>-</b>          | <b>-</b>          |
| <b>Furniture and fittings</b>                 |                   |                   |
| 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               |
| <b>Carrying amount at end of year</b>         | <b>400</b>        | <b>238</b>        |

## 11. Property, plant and equipment - continued

|   | 30/06/15<br>\$000 | 30/06/14<br>\$000 |
|---|-------------------|-------------------|
| <b>Motor vehicles</b>                         |                   |                   |
| 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               |
| <b>Carrying amount at end of year</b>         | <b>388</b>        | <b>406</b>        |
| <b>Office equipment</b>                       |                   |                   |
| 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               |
| <b>Carrying amount at end of year</b>         | <b>117</b>        | <b>61</b>         |
| <b>Work in progress</b>                       |                   |                   |
| Cost at beginning of year                     | 2,307             | 5,374             |
| Additions                                     | 1,629             | 2,307             |
| Capitalised                                   | (2,307)           | (5,374)           |
| <b>Carrying amount at end of year</b>         | <b>1,629</b>      | <b>2,307</b>      |
| <b>Total property, plant and equipment</b>    | <b>20,034</b>     | <b>15,123</b>     |

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<br>\$000 | 30/06/14<br>\$000 |
|---|-------------------|-------------------|
| <b>In use</b>                                 |                   |                   |
| 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             |
| <b>Carrying amount at end of year</b>         | <b>5,286</b>      | <b>4,223</b>      |
| <b>Work in progress</b>                       |                   |                   |
| Cost at beginning of year                     | 789               | 121               |
| Additions                                     | 561               | 769               |
| Capitalised                                   | (789)             | (101)             |
| <b>Carrying amount at end of year</b>         | <b>561</b>        | <b>789</b>        |
| <b>Total computer software</b>                | <b>5,847</b>      | <b>5,012</b>      |

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<br>\$000 | 30/06/14<br>\$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             |
|   | <b>49,851</b>     | <b>70,214</b>     |

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

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<br>\$000 | 30/06/14<br>\$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)          |
|   | <b>15,248</b>     | <b>39,001</b>     |

## 16. Employee entitlements

|              | 30/06/15<br>\$000 | 30/06/14<br>\$000 |
|--------------|-------------------|-------------------|
| Annual leave | 648               | 629               |
|              | <b>648</b>        | <b>629</b>        |

## 17. Provision

|   | 30/06/15<br>\$000 | 30/06/14<br>\$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)             |
| <b>Provision at end of the year</b>       | <b>486</b>        | <b>549</b>        |

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<br>\$000 | 30/06/14<br>\$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)             |
| <b>Provision at end of the year</b>                              | <b>436</b>        | <b>549</b>        |

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<br>\$000 | 30/06/14<br>\$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)             |
| <b>Provision at end of the year</b>                          | <b>50</b>         | <b>-</b>          |

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

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<br>\$000 | 30/06/14<br>\$000 |
|---|-------------------|-------------------|
| Profit/(loss) after distribution to the NZ Lottery Grants Board | -                 | (5,000)           |
| <b>Adjustments for non-cash items:</b>                          |                   |                   |
| Depreciation of property, plant and equipment                   | 5,054             | 4,255             |
| Amortisation of computer software                               | 1,597             | 1,225             |
| <b>Changes in assets and liabilities</b>                        |                   |                   |
| (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)           |
| <b>Investing activity items</b>                                 |                   |                   |
| Interest receipts   | (4,130)           | (5,485)           |
| (Gain)/loss on sale of property, plant and equipment            | (14)              | (50)              |
| <b>Financing activity items</b>                                 |                   |                   |
| Annuity prize liabilities                                       | 97                | 100               |
| Lottery Grants Board payables                                   | 198,603           | 231,157           |
| <b>Net cash inflow from operating activities</b>                | <b>167,441</b>    | <b>222,008</b>    |

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

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

## 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<br>\$000 | 30/06/14<br>\$000 |
|---|-------------------|-------------------|
| Salaries and other short-term employee benefits | 2,072             | 2,395             |
| Termination benefits                            | -                 | 262               |
|   | <b>2,072</b>      | <b>2,657</b>      |

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<br>\$000 | 30/06/14<br>\$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                |
|   | <b>148</b>        | <b>148</b>        |

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

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

**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<br>\$000 | 30/06/14<br>\$000 |
|---|-------------------|-------------------|
| <b>Current assets</b>                         |                   |                   |
| Forward currency contracts - cash flow hedges | -                 | -                 |
| <b>Non-current assets</b>                     |                   |                   |
| Forward currency contracts - cash flow hedges | -                 | -                 |
|   | -                 | -                 |
| <b>Current liabilities</b>                    |                   |                   |
| 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

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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

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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

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

## 30. Major budget variations

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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.

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## 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,  
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