



LOTTO NEW ZEALAND

**BRIEFING FOR THE MINISTER OF
INTERNAL AFFAIRS**

To Minister of Internal Affairs

From Roger Sharp, Lotto NZ Chair
Chris Lyman, Lotto NZ Chief
Executive

Date 20 November 2020

1. Introduction

E ngā lwi, e ngā reo, e ngā mana, e ngā rau rangatira mā – tēnā koutou.

Nei ā māua mihi maioha ki a koutou katoa i runga i ngā tini āhukatanga o te wā.

Nā reira, tēnā koutou, tēnā koutou, tēnā rā koutou katoa.

We are pleased to provide this document, intended to give the Minister of Internal Affairs an overview of the New Zealand Lotteries Commission (Lotto NZ).

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

With 100% of our profits going to the community, via the New Zealand Lottery Grants Board, we generate funding that supports the vital work of thousands of organisations and charities every year.

Providing a responsible gaming environment is central to all of our operations, as we cannot achieve our objective of maximising benefits for New Zealand communities if playing our games is causing undue harm.

We are firmly focused on the sustainability of our business and communities, ensuring that we can keep benefitting New Zealand, and making a meaningful difference in our country's future.

Ka nui ā māua mihi

Roger Sharp, Chair



Chris Lyman, Chief Executive



2. About Lotto NZ

- Lotto NZ was established in 1987 to provide lottery games for the benefit of New Zealand communities. We operate as a Crown Entity under the Gambling Act 2003.
- All profits, apart from any retentions approved by the Minister for capital expenditure purposes, are transferred to the New Zealand Lottery Grants Board.
- In 2019/20, \$313 million was transferred to the Lotteries Grants Board.
- With 100% of our profits going to the community, we generate funding that supports the vital work of thousands of organisations and charities every year. Over the past 33 years, Lotto NZ funding of \$4.9 billion has made a real difference in the lives of New Zealanders all around the country.
- Nearly half of Lotto NZ profits are allocated to the three statutory bodies of Sport New Zealand, the New Zealand Film Commission, Creative New Zealand, and the charitable trust Ngā Taonga Sound & Vision.
- Central to all our operations is providing a safe and secure gaming environment that encourages responsible play. Our games are intended to be fun and entertaining and should never be viewed as a means of relieving financial, personal or other difficulties. This is especially important in the current environment, due to the ongoing impacts of the COVID-19 pandemic. Supporting and protecting New Zealanders at this time is more important than ever.
- We follow the well-established “no surprises” convention and the Minister can be assured that the Lotto NZ Board will keep her informed of all significant developments in the business as they occur.
- We work closely with officials at the Department of Internal Affairs, Ministry of Health and The Treasury to uphold the three principles of the New Zealand gambling framework – Harm Minimisation, Trusted Providers and Community Benefit.
- We also engage with relevant organisations across the sector, including problem gambling service providers.

3. The Business of Lotto NZ

- As an autonomous Crown Entity, Lotto NZ’s activities are authorised and controlled through the Gambling Act 2003. This gives Lotto NZ four statutory functions:
 - To promote, organise and conduct lotteries
 - Make rules regulating the conduct of those lotteries
 - Advise the Minister of Internal Affairs on matters relating to lotteries

- Maximise profits, subject to ensuring problem and underage gambling is minimised
- Lotto NZ offers games that provide New Zealanders the chance to play and win. The products we currently offer are Lotto, Strike, Powerball, Keno, Bullseye, Instant Kiwi and Instant Kiwi online. Our products are sold through our network of Lotto NZ retail outlets and through our online sales channels – MyLotto and the Lotto NZ App.
- The Powerball jackpot is our main driver of sales, and therefore profit, accounting for around 86% of revenue in the current financial year, as at 31 October 2020. The expected long run average is for Powerball to be won 13 times in a given year. Consequently, in years where it is won less often, resulting in higher jackpots on offer, we would typically see higher sales than in years where it is won more frequently. As a result, there is always a certain amount of volatility in Lotto NZ's performance from one year to the next.
- Our lottery games have been available for purchase online since 2008, with the launch of MyLotto. This was followed by the launch of a full-service App for Apple and Android devices in late 2016. Online sales, through MyLotto and the Lotto NZ App, now account for about 38% of total sales.
- We have the largest retail network in New Zealand with over 1,500 retail outlets across the country.
- Lotto NZ employs approximately 182 staff based primarily in Auckland, with a small number of retail support staff based in different regions of the country. In addition, our retail outlets directly employ more than 5,000 people.
- Our success is built on the integrity of our products, the transparency of our systems, and our commitment to operating in a way that does not have adverse social, economic or environmental outcomes.
- Given the intangible nature of our products, having a strong brand that makes New Zealanders feel good about playing our games is imperative to the success of our business. We use storytelling to inspire our players to dream big and remind them of the important contribution they're making to New Zealand communities.

4. Returns to New Zealand Communities

Lotto NZ exists to generate essential funding for New Zealand communities, with many organisations relying on lottery funding to operate.

In addition to the three statutory bodies, Lotto NZ funding supports many well-known charities such as Surf Life Saving NZ, Heart Kids, Coastguard NZ and Barnardos, as well as thousands of other good causes every year. Last year these included K'aute Pasifika providing domestic violence prevention and support services to Pacific Island families in the Waikato, the Whakapaumahara Marae in Northland to rebuild key facilities, the Turangi Foodbank and the Maungatautari Ecological Island Trust.

Kiwis Helping Kiwis

Lotto NZ works closely with the Lottery Grants Board to share stories of the meaningful difference that grant recipients are making in the community. In June 2019 we launched *Kiwi Helping Kiwis* as a platform for sharing emotionally engaging stories in order to raise awareness of the link between the purchase of Lotto NZ products and community funding. This is done through television commercials, on social media and direct to customer through our owned channels.

2019/20 performance

2019/20 delivered record sales and profit, despite the impact of COVID-19. The first six months saw the highest ever half yearly Lotto NZ sales, largely due to a high jackpot run in October.

While we had a \$50 million Powerball Must be Won draw in February, sales in the second half of the year were lower than the first half due to the closure of retail stores during the Alert Level 4 lockdown.

Sales for Lotto family games (Lotto, Powerball and Strike) amounted to \$1.16 billion, which accounted for 84% of sales. Instant Kiwi in-store and online contributed \$166 million, while sales from our daily games (Keno and Bullseye) were \$49 million.

Online sales via MyLotto increased significantly during the year, with total sales online of \$431 million – an 89% increase on the previous year. A key driver of this increase was the growth in the number of people registering to play on MyLotto during the March / April COVID lockdown, while Lotto NZ retail outlets were closed.

Cost control is a focus for the Lotto NZ, and additional cost control measures were put in place during the lockdown period to partially off-set the reduction in sales. Operating expenses for the year were \$70.6 million, 7% below budget.

Sales performance, coupled with a focus on costs, meant the distribution to the Lottery Grants Board of \$313.4 million for 2019/20 was a record transfer, up \$52.1 million (19.9%) on the year before. This is over double the amount transferred in 2003.

Growth in returns over the last five years

Lotto NZ sales and profit have experienced steady growth over the last five years, following a period of static growth in the 1990s, and a decline in returns in the early 2000s.

In 2003, annual sales declined to \$540 million – \$104 million (16%) lower than the peak at that time set in 1999. Similarly, profit and therefore transfers to the Lottery Grants Board had dropped by \$31 million (22%) to \$107 million.

Since then the business has been turned around and we continue to build on Lotto NZ's steady growth path.

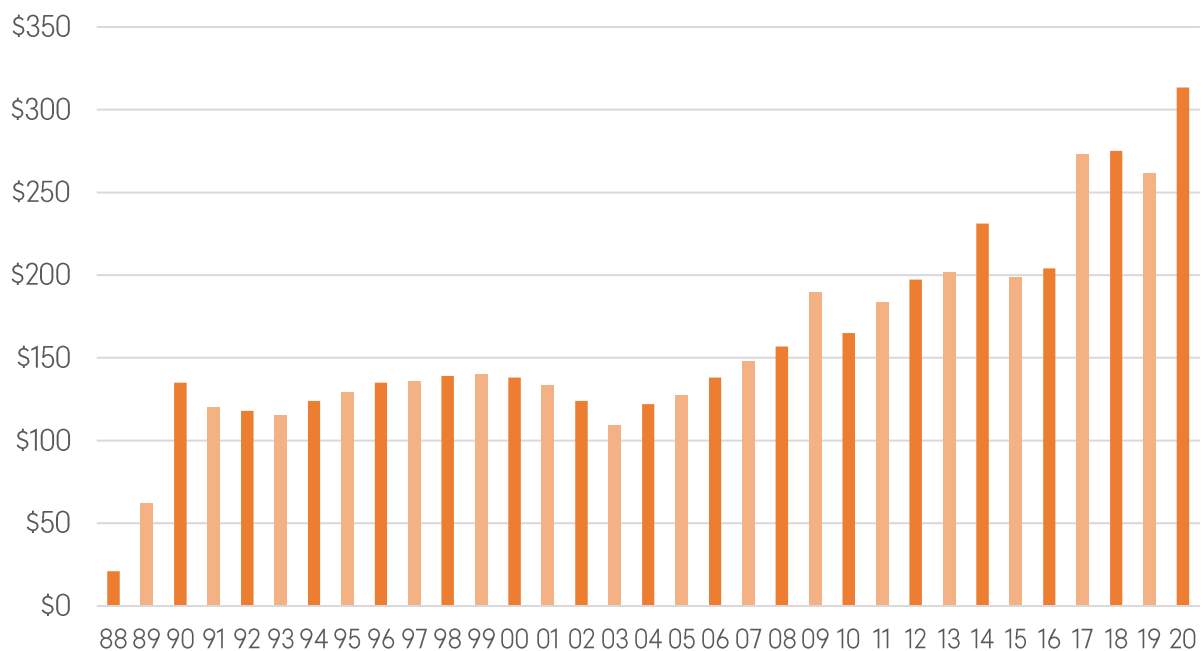
A number of strategic initiatives to support growth have been delivered over recent years including:

- Introducing new games and improving games already in market

- Ensuring that we have Lotto NZ outlets positioned in the right locations around the country to provide ease and convenience for customers, in addition to an ongoing focus on providing great customer service.
- Modernising the look and feel of our branding and our retail outlets.
- Building MyLotto player base and launching Instant Kiwi online.
- Continuing to create relevant advertising that creates an emotional connection with our players and gets the right message across in an entertaining way
- Telling our community story to increase awareness of our core purpose.

These and other improvements have enabled us to increase distributions to the Lottery Grants Board significantly. This has ensured a steady increase in the amount of funding available to Creative New Zealand, Sport New Zealand, the NZ Film Commission and the thousands of community groups and projects that receive lottery funding every year.

Profits transferred to the NZ Lottery Grants Board since 1987/88



Key financial metrics for the last ten years

The table below sets-out Lotto NZ’s key financial metrics over a ten year period and reflects the fact that operating costs as a percentage have on average reduced over the period in relation to revenue.

Key financial metrics										
Financial years/NZ\$000	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Revenue	885,131	903,807	905,237	942,006	848,538	926,748	1,145,808	1,184,149	1,115,989	1,311,638
Cost of sales	642,469	653,469	641,734	655,081	587,167	661,168	801,742	835,185	784,954	907,547
Gross profit	242,662	250,338	263,503	286,925	261,371	265,580	344,066	348,964	331,035	404,091
Operating expenses	59,370	59,911	61,710	60,768	62,768	61,581	68,833	65,935	69,744	70,603
Profit before distribution to LGB	183,292	190,427	201,793	226,157	198,603	203,999	275,233	283,029	261,291	333,488
Distributions to LGB	183,292	197,227	201,793	231,157	198,603	203,999	272,833	275,029	261,291	313,280
<i>% compared to revenue:</i>										
% operating expenses	6.7%	6.6%	6.8%	6.5%	7.4%	6.6%	6.0%	5.6%	6.2%	5.4%
% profit before distribution to LGB	20.7%	21.1%	22.3%	24.0%	23.4%	22.0%	24.0%	23.9%	23.4%	25.4%
<i>Population size:</i>										
18 years and over	3,286,100	3,311,500	3,346,900	3,419,400	3,506,200	3,600,800	3,687,300	3,765,800	3,836,000	3,929,500
Total all ages	4,384,000	4,408,100	4,442,100	4,516,500	4,609,400	4,714,100	4,813,600	4,900,600	4,979,300	5,084,300

Budget for 2020/21

We have budgeted for sales of \$1.23 billion for 2020/21, and a distribution to the Lottery Grants Board of \$280 million.

Lotto NZ's budget was set during the highest Covid-19 alert level in April this year with many unknowns in terms of the full extent Covid-19 would have on our performance. We took consideration of Treasury's realistic negative scenario at the time and therefore this year's budget is based off a conservative view. The reliance (and planning) based on Lotto NZ's funding to community groups was also noted to ensure we were not over promising on a very uncertain future due to the unknown effect of Covid-19. All of our products have allowances for a reduction in sales, in comparison to what we would have normally expected without the impact of Covid-19. Our Lotto family (Lotto, Powerball and Strike) products for example have a 13% reduction on a normal jackpot year performance.

Fortunately, we are performing ahead of budget at all jackpot levels this financial year and have also experienced a \$50 million Powerball Must Be Won draw (an event that statistically should occur only once every 3.5 – 4 years). This has lifted our results significantly as we see a very strong correlation between the Powerball jackpot and sales.

As a result, sales and profit for the first quarter of the year are materially higher than budget. Assuming we continue our current performance at like jackpots and have a normal year of Powerball jackpots for the rest of the year, we are confident of exceeding our budgeted transfer of profit to the Lottery Grants Board for the 2020/21 financial year.

5. Operating environment

Impacts of COVID-19

Lotto NZ

As with many businesses, Lotto NZ was impacted by the closure of retail stores during the Alert Level 4 lockdown. We continued to operate online during this period, however the store closures had a significant impact on sales, with sales at around 60% of normal during the period.

It is too early to accurately predict the long-term impact of the pandemic on New Zealand and therefore Lotto NZ performance. However, we are seeing some differences in the ways that New Zealanders are now purchasing our products.

While sales returned to normal when the lockdown was lifted, and many customers who moved to play online during the period returned to primarily purchasing in retail, a larger proportion now use a mix of both retail and MyLotto. As a result, MyLotto has grown from accounting for 19% of sales in 2018/19 to 38% of sales as at 31 October 2020.

Industry Impact - Global

The impact on lotteries during the COVID-19 pandemic has been mixed. For example, the UK and France allowed lotteries to continue during lockdown periods, whilst Italy, Spain and Gibraltar required them to close. Lotteries ceased to operate in many states in the USA primarily due to there being no online channels available.

Lotteries across the world saw a decrease in sales due to full or partial closure of their retail outlets and this has impacted on jackpot sizes. While many have reopened as restrictions lifted, ongoing lockdowns in some countries have led to further retail closures. The ongoing impact on sales, and therefore community funding, is yet to be fully understood.

Industry impact - NZ

Within New Zealand, the impact has been felt across the gambling industry with both SkyCity and TAB NZ being significantly affected due to their reliance on land-based gambling.

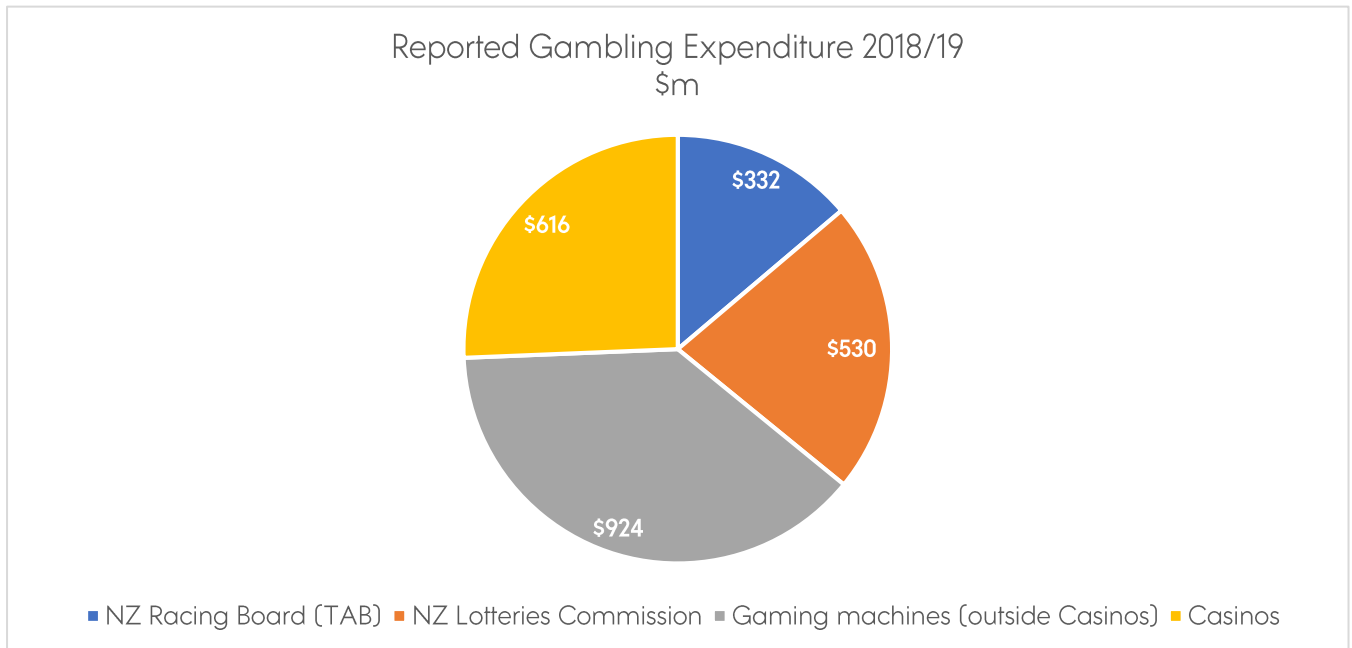
The TAB NZ announced revenue was down almost 50% in April due to live sports and racing being almost entirely cancelled. In May 2020, the Minister of Racing announced a \$72.5 million emergency package which included \$50 million to RITA.

The same announcement also included \$2.5 million for the Department of Internal Affairs to fast track the online gambling review, to provide focus on addressing the impact that the loss of revenue will have on community and sports groups.

Community funding has also been impacted by reduced funds from gaming machines which were unavailable during the closure of pubs and bars.

Market size and Competitive Environment

According to figures compiled by the Department of Internal Affairs, New Zealanders spent \$2.4 billion on the four main forms of gambling in the 2018/19 financial year – \$19 million more than the previous year. Spending on Lotto NZ products accounted for 22% of this spend.



Spending on all forms of gambling by New Zealanders continues to increase – both in the regulated and unregulated market with reported spend increasing year on year.

Online Gambling

New Zealand currently has one of the most tightly restricted online gambling markets in the world, with only Lotto NZ and the TAB able to offer lottery games and sports betting online, respectively. While these tight controls of the regulated market are designed to protect activity within our jurisdiction, we are seeing more and more New Zealanders playing on overseas sites.

Our understanding of the reasons for this are two-fold: firstly, New Zealanders' wish to access online gambling products not currently regulated in New Zealand. Secondly, there is currently little to deter overseas providers from targeting New Zealanders.

Prominent global players already dominate the unregulated online market in New Zealand. These providers are already capturing a large customer base and offering a wide range of products. 25% of New Zealanders [18+] claim to have done some form of online gambling in the past 12 months – 14% of these are gambling offshore (Source: TRA, 2019)

We are seeing new players enter the market, with SkyCity reporting that their recently launched online casino (based in Malta) had 35,000 registered users as at 31 August 2020.

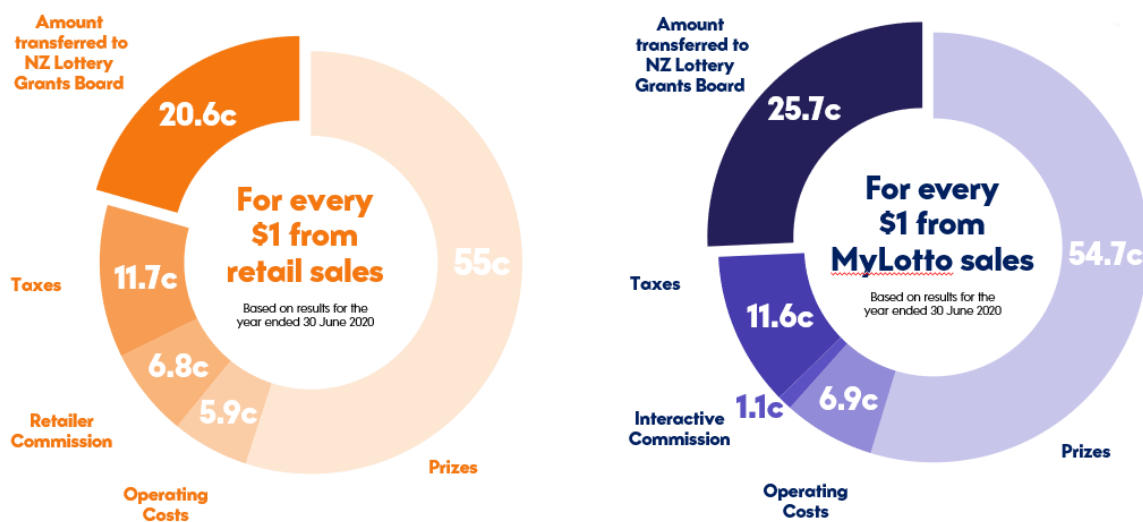
Lotto NZ's increase in online play

Lotto NZ has seen a significant shift to online play over the last 12 months – now accounting for 38% of sales. Due to the lower cost to service, this has led to an increase in returns to communities

For every dollar spent on MyLotto, 25.7 cents is transferred to the Lottery Grants Board, compared with 20.6 cents for every dollar spent in Lotto NZ retail outlets, mainly as a result of retailer commission on these sales and cost to service retail outlets.

For every 1% of sales that move to MyLotto from retail, Lotto NZ returns \$610,000 more in funding to New Zealand communities.

Higher MyLotto sales leads to increased profit distributions to the Lottery Grants Board



For every 1% of sales that moves to MyLotto from retail Lotto NZ returns \$610,000 more funding to the LGB

To support the increase in online play, Lotto NZ is investing \$25 million in the MyLotto website and app. This will ensure we have a robust online gaming environment, and well set-up for further growth in this channel. The upgrade is due for completion in early 2021.

Online Gambling Review

Lotto NZ fully supports the current online gambling review and considers it a priority for the Government to complete the review and implement the necessary regulatory reform.

Growing numbers of New Zealanders continue to gamble on unregulated sites, without mandatory harm minimisation controls and with no benefit to New Zealand communities.

Lotto NZ strongly believes that any change to online gambling laws should remain consistent with the three principles of the New Zealand gambling framework, as outlined in the Online Gambling in New Zealand Public Discussion Document:

- Harm Minimisation: Harm from gambling is minimised and the cost of mitigating harm is borne by the industry
- Trusted Providers: Gambling is authorised and conducted by trusted and reputable operators (who will comply with regulation)
- Community Benefit: Communities should benefit from the profits of gambling.

As a Crown Entity, Lotto NZ is committed to working with the Government and the Department of Internal Affairs (DIA) to ensure the best outcome for New Zealand. This includes our support for Class 3 operators to provide lotteries online. Throughout the review, and irrespective of the outcome, we remain focused on maximising profits for the benefit of New Zealand communities, while minimising the risk of harm associated with our games.

In summary, Lotto NZ is of the opinion that:

- The online gambling review is a priority workstream – the use of unregulated offshore websites is a growing issue that needs to be addressed.
- Any change to gambling regulation should remain consistent with the three principles of the gambling framework.
- Effective harm-minimisation of regulated online gambling will only be achieved if there is consistency of controls, all operators have mandatory controls and there is centralised self-exclusion.
- Problem gambling services should be funded by all operators of online gambling products in New Zealand.
- Greater restrictions and enforcement related to who can advertise gambling in New Zealand should be undertaken, irrespective of any future changes.
- Class 3 operators should be authorised to operate online.

Lotto NZ welcomes discussions with the Minister on the Online Gambling Review, with a focus on the wellbeing on New Zealanders through harm minimisation and community benefit.

6. FOCUS: Harm Minimisation

Our approach to minimising harm is structured around the standard practice of prevention, detection and intervention. We have a strong focus on prevention and aim to equip our customers with the tools, information and resources to enable them to play safely.

Lotto NZ has been certified to the highest possible level of responsible gaming by the World Lottery Association (WLA) since 2015, and most recently re-certified in 2019.

Our harm minimisation strategy reflects the WLA responsible gaming framework and we will continue to monitor and evaluate ourselves against this, driving the continuous improvement required to maintain level 4 accreditation, which is due for re-submission in 2022.

Our harm minimisation strategy

Our harm minimisation strategy is grounded in a solid foundation of strong governance, a clear communications strategy, appropriate resource allocation, and is driven by research and data. The support of our key stakeholders is a critical component to our success in this space, and an area we will continue to focus on over the coming period.

Our initiatives are predominantly driven by a clear desire to prevent harm by our games and are supported by activities related to detection and intervention for the small number of people who do experience harm from our games.

These initiatives cover all aspects of our operations – from initial game design, through to training of our staff and retailers, across communications and to the reporting and identification of potential problem play behaviour.

Existing responsible gaming controls

- All of our products and communications are designed for, and aimed at, adult New Zealanders. Throughout our harm minimisation processes there is a strong focus on ensuring that Lotto NZ never appeals to minors. Ensuring no-one under the age of 18 can purchase Instant Kiwi is paramount and we have a range of processes and procedures to ensure we continue to meet our obligations relating to under-age play.
 - In-store, all retailers are required to ask anyone who looks under 25 for identification and we test compliance of this in all stores with quarterly mystery shops.
 - Online, we have a robust age verification process which includes proving age through a passport or drivers' licence.
- Lotto NZ has mandatory spending limits in place for all registered MyLotto players. Currently, all players have a weekly spending limit of \$150 and a monthly limit of \$500. Of the \$150 weekly spending limit, no more than \$50 can be spent on Instant Kiwi Online games.

- All of our email communications include a prominent message reminding people of our commitment to responsible gaming, with a link to our tools and resources on MyLotto.co.nz.

Summary of Lotto NZ's existing online controls:

ONLINE SAFEGUARDS	EDUCATION AND INFORMATION	ACCOUNT MANAGEMENT
<ul style="list-style-type: none"> • Age-verification • Mandatory spending limits • Individual spending limits • Player self-exclusion • Opening and closing hours • Email communications restricted to players aged 18-plus. 	<ul style="list-style-type: none"> • Mandatory acceptance of site terms and conditions • Responsible Gaming information online in multiple languages • Treatment referral information available online • Player self-test to determine play behaviour • Unsubscribe form marketing communications • Spending limit emails. 	<ul style="list-style-type: none"> • Single customer account • Maximum account balance • Player financial history • Deposit limit • No credit, no rewards.

Please refer to appendix 1 for more detail on our online responsible gaming controls.

Future responsible gaming controls

As a Crown Entity, we strongly believe that we should continue to have the tightest harm minimisation controls within New Zealand. We know that higher frequency games, such as online instant win games and online bingo, have the potential to be higher risk, and therefore more controls are needed in order to minimise gambling harm.

We have seen a marked increase in the move towards online play, so to adapt to changing player behaviour we will ensure our responsible gaming approach continues to be fit for purpose for online play.

During 2020/21 we are investing in a significant upgrade of MyLotto, which will enable technology that supports the addition of new tools designed to encourage healthy online play. The following tools are planned to be implemented in FY2021.

- **Session time limits:** The introduction of a mandatory session time limit forces a break in play for a set period of time. Players will be kept apprised of their

time and limits, and when the limit is hit, they will be forcibly logged out from the site.

Lotto NZ session time limits will be mandatory for Instant Kiwi online, and any other high frequency products (e.g. Bingo). Once a player hits the session time limit, they will not be able to play for a defined period of time.

- **Pop-up reminders:** A pop-up reminder, also referred to as a 'reality check', is a cautionary message that is displayed after a set period of time. It informs the player of how much play time has elapsed, along with the amount wagered, lost, and won. This type of pop-up reminder is for advisory purposes and does not enforce a hard stop on gaming activity.

Research has shown that pop ups can result in a reduction in session length for players, and a decrease in expenditure, particularly among high risk players. Lotto NZ's reality checks will be mandatory for all Instant Kiwi online, and any other high frequency products (e.g. Bingo). Players will be required to set their reality check time in order to play those products. The options provided will be 15, 30, 45 and 60 minutes.

- **Behavioural analytics tool:** We will introduce a responsible gaming behavioural analytics tool, which is commonly used by overseas online gambling providers to identify and respond to potentially harmful play behaviour and intervene through the ability to provide relevant responsible gaming information and suppress marketing communications

By providing additional harm minimisation controls that are fit-for-purpose, we will be able to continue to meet our obligations of both maximising profit and minimising the potential for harm associated with our games.

Continuous improvement of our approach to responsible gaming is central to our harm minimisation strategy and is required to maintain the highest level of responsible gaming accreditation by the World Lottery Association. These new tools will also ensure that Lotto NZ continues to have the tightest controls of any regulated or unregulated provider operating in New Zealand.

Play Smart

Play Smart is Lotto NZ's responsible gaming programme, which was rolled out at the end of 2019/20. At Lotto NZ we believe having a robust approach to responsible gaming is good for business. Through Play Smart our players will have access to tools and information that will help them make informed decisions and ensure that we have life-long customers who play our games in ways that they are comfortable with.

The programme is based on research and international best-practice insights which show an approach that focuses on educating players about positive play leads to healthier behaviour.

Play Smart includes new and improved responsible gaming material in-store and online, additional tools and information to meet customer needs, and enhanced

training for staff and retailers so they can provide support to players. It promotes prominent placement of Play Smart messaging on customer facing material, including in-store and on the home page of MyLotto.

Harm Minimisation Committee

Lotto NZ operates a Harm Minimisation Committee to review all consumer-facing material and ensure compliance with both our internal and external standards. All products, advertising and communications regarding Lotto NZ and our games are reviewed and require formal approval by the committee.

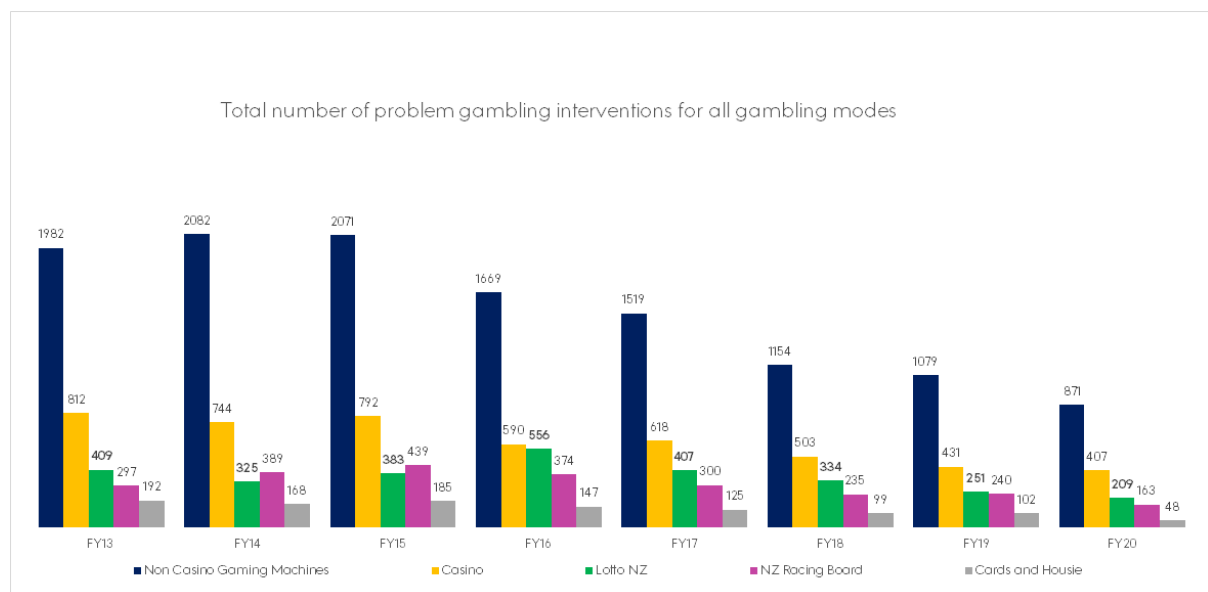
Lotto NZ external stakeholder panel

To provide a greater level of two-way conversation and engagement with Lotto NZ’s responsible gaming programme, we have implemented an external voluntary panel of experts from a range of industries and businesses around the country that relate to Lotto NZ. The panel meets quarterly to provide an objective sounding board for our harm minimisation strategy, processes, materials and tools – providing relevant expert advice.

Ministry of Health intervention client data

Gambling harm in Aotearoa is measured by the number of people who seek problem gambling counselling for their or someone else’s gambling. This is called intervention client data, and is collected by the Ministry of Health (MoH) from service providers around the country. The data also informs the calculation of the Problem Gambling Levy.

Minimising the potential for harm from our games is fundamental to our success. While we have experienced growth in overall revenue, an increase in the proportion of our sales online and the launch of online instant win games, we have seen a decrease in the number of people presenting to problem gambling service providers, citing Lotto NZ games as their primary mode of gambling.

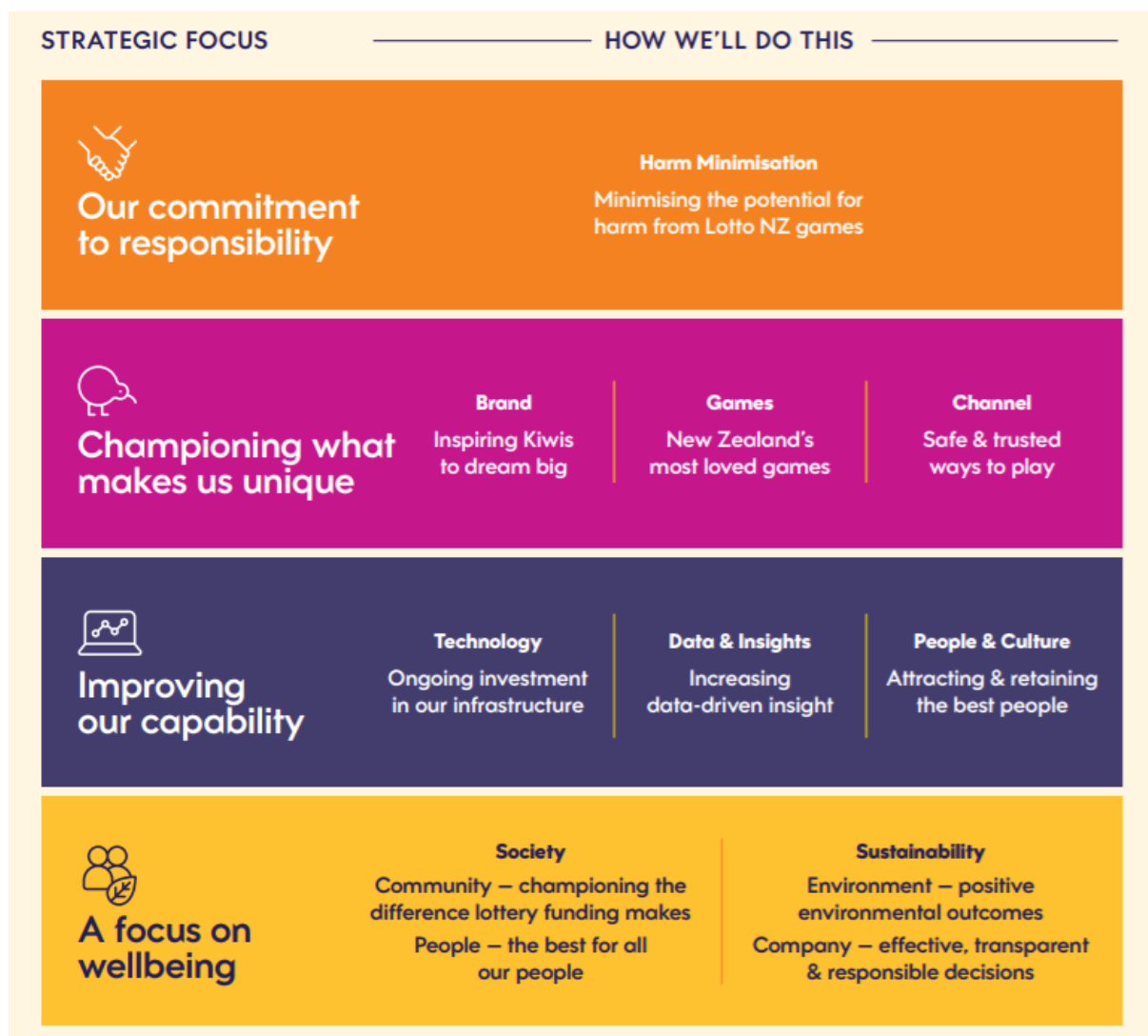


Source: Ministry of Health

As outlined in our latest Statement of Intent and Statement of Performance Expectation, Lotto NZ monitors the primary mode of gambling citations per 10,000 players of Lotto NZ games. We have a target of <2.0 gambling citations per 10,000 people. The actual number for 2019/20 was 0.70.

7. Lotto New Zealand's Strategic Direction

Lotto NZ's strategy provides a clear focus and direction on how Lotto NZ needs to operate in order to continue to deliver positive outcomes for New Zealand, for the 2020/21 financial year and beyond.



Our strategy has four key areas of strategic focus:

Our commitment to responsibility

Lotto NZ's purpose is to provide safe gaming that allows New Zealanders to play and win, while contributing money back to New Zealand communities. It is important that we balance these dual obligations, as we evolve our business to meet the needs of

customers in 2020 and beyond. Therefore, the cornerstone of our strategy is our commitment to minimising the risk associated with problem and underage gambling.

Championing what makes us unique

Our key point of difference is that 100% of our profits benefit New Zealand communities. Lotto NZ is a trusted and loved New Zealand brand, which will always go above and beyond in minimising the potential for harm from our games. Together these stand us apart from the competition, and we will focus on championing our brand, games and channel over the coming period.

Improving our capability

A key focus for the business is a project to upgrade the MyLotto website and app, which is due to be completed by early 2021. The significant project has been underway since 2019 and involves a \$25 million technology investment to support the move to online play. The current website is ageing, and the upgrade is required to meet higher demand online.

The work to upgrade MyLotto will ensure the back-end processes are more robust, and able to deal with higher traffic on the site. Further planning is underway for a full replacement of our back-end gaming system in 2024.

In addition, Lotto NZ continues to grow the data and insights capability required to make informed and effective decisions. At the same time, we will make sure that we have the best people across the organisation to deliver on our ambitions.

Wellbeing focus

We support the Government's focus on wellbeing, and this is embedded in our strategy for the coming period as part of our Corporate Social Responsibility strategy. In addition to our commitment to responsible gaming, our CSR strategy addresses Lotto NZ's impact from a Society and Sustainability perspective. However, minimising the potential for harm from our games will always be the most important component of our CSR strategy.

Each of our CSR pillars are aligned to the United Nations Sustainable Development Goals. Our CSR strategy and approach will form the basis for our first integrated report for the 2020/21 year.

Note that Lotto NZ is currently in the process of developing our new Statement of Intent, for financial years 2022 to 2025, that will reflect changes to New Zealand's gambling environment, and how we need to respond to this over the coming four-year period.

8. Lotto New Zealand's products

The products we currently offer are Lotto, Strike, Powerball (collectively called the 'Lotto family'), Keno, Bullseye, Instant Kiwi and Instant Kiwi online.

As per the respective Game Rules, the jackpot thresholds for Powerball, Strike, and Bullseye are determined by Lotto NZ and published in Jackpot Policies that are available online and in-store.

Lotto family draws are broadcast on television and online on TVNZ on-demand and are conducted under the scrutiny of Audit New Zealand. Keno and Bullseye games are drawn using a Random Number Generator. Results for all our games are available online at MyLotto, on the Lotto NZ App, and at all Lotto NZ outlets.

Please refer to appendix 2 for more details about Lotto NZ's products.

9. Product Development

Bingo – expanding our digital game portfolio

Further to approval provided by the previous Minister of Internal Affairs, to proceed to game rules development and consultation on harm minimisation, work is underway regarding the launch of online Bingo. To support this, an RFP process to appoint a potential vendor is planned to begin in December 2020. The launch of online Bingo by Lotto NZ is still subject to final approval by the Minister, as per standard process for new games, following consultation with PCO, DIA and MoH.

Bingo, and more recently online Bingo, is a large global industry, and is continuing to increase in popularity. Online Bingo play is already widespread in New Zealand through a number of offshore sites, with close to 190,000 New Zealanders playing for money online in the last 12 months (Source: TRA, 2019).

In order to grow our business, and therefore contribution to New Zealand communities through lottery grants, we need to reduce our reliance on large jackpotting games and deliver a greater proportion of sales from new customers by enhancing the range of games we offer. Online Bingo will help deliver more consistent results and ensure long-term sustainability for the business.

By offering online Bingo, Lotto NZ will provide a safe, trusted alternative to the offshore Bingo sites New Zealanders are currently playing on. Importantly, Lotto NZ's digital delivery of Bingo will allow for strong mandatory responsible gaming controls, with an identified and age verified player base.

10. Legislation

The activities of Lotto NZ are specifically authorised and controlled through the Gambling Act 2003 and the Crown Entities Act 2004. This legislation gives us four main statutory functions, to:

- Promote, organise and conduct New Zealand lotteries for the purpose of generating profits for distribution by the New Zealand Lottery Grants Board, or for a community purpose for which a special purpose lottery is promoted
- Maximise profits so generated, subject to ensuring that the risks of problem gambling and underage gambling are minimised
- Make rules regulating the conduct and operation of New Zealand lotteries
- Advise the Minister on matters relating to New Zealand lotteries.

11. Governance

The Treasury's Commercial Performance Operations unit monitors the Crown's ownership interest in Lotto NZ on behalf of the Crown and provides performance and governance advice to the responsible Minister.

As outlined in the directory at the rear of this paper, our Board has eight members appointed by the Minister of Internal Affairs. Board Chair, Roger Sharp, was appointed to the role in July 2020. Day-to-day business operations are the responsibility of the Chief Executive, Chris Lyman, who was appointed in December 2017, and the senior management team.

12. Regulatory control

The Department of Internal Affairs (DIA) is Lotto NZ's primary regulator. We maintain a close working relationship with DIA, engaging frequently over issues that affect lottery gambling in New Zealand.

Under the Gambling Act, responsibility for developing a strategic plan for preventing and minimising gambling harm sits with the Ministry of Health (MoH). We consult with MoH on issues relating to gambling harm.

14. Directory

Board

BOARD MEMBER	BOARD APPOINTMENT DATE	TERM END DATE
Roger Sharp (Chair)	July 2020	June 2021
David Tapsell (Deputy Chair)	November 2016	October 2022
Kim Gordon	May 2018	April 2021
Keiran Horne	November 2015	October 2021

Trish Oakley	June 2020	October 2022
Roanne Parker	February 2019	October 2021
Logan Sears	November 2015	October 2021
Mark Todd	February 2019	October 2021

Executive team

EXECUTIVE TEAM MEMBER	POSITION
Chris Lyman	Chief Executive
Dan Balasoglou	Chief Financial Officer
Annemarie Browne	Chief Marketing Officer
Ben Coney	Chief Innovation and Technology Officer
Kathryn Haworth	General Manager, Strategy and Communications
Sonja Johnson	General Manager, People and Culture
Recruitment underway	Chief Customer Officer
Recruitment underway	Chief Transformation Officer

Offices

Auckland Office
Level 1, 73 Remuera Road
Remuera, Auckland 1050

Christchurch Office
Regus, Ground Level
6 Hazeldean Road,
Addington 8024

Auckland is our head office and where all of our commercial operations and corporate support functions are based. All premises are leased.

15. Appendix

APPENDIX 1: Current Lotto NZ online harm minimisation controls

CORE BEHAVIOURAL CONTROLS	
Registration process	Only registered (known) players can wager.
Identity verification as part of registration	Limits one account per person
Age verification /Limitation	Only those who are verified as 18 years or older can play Instant games.
Maximum spending limits across MyLotto	Each player can spend no more than \$150 per week or \$500 per month. Of the \$150 weekly limit, no more than \$50 can be spent on Instant Kiwi online

Pre-commitments	Players have the option to set their own lower weekly or monthly limits.
PLATFORM LEVEL SUPPORT/CONTROLS	
Transaction history	Transaction history available
Gaming history	Gaming history available
Maximum Weekly Deposit Limit	\$150 maximum threshold that a customer can add to their account in a week.
Maximum account balance	Maximum of \$999, any funds over \$999 must be withdrawn before games can be played.
Self-exclusion	Players have the ability to self-exclude from any game for a set period of time.
Direct Communications	Email communications restricted to players aged 18-plus. Electronic communication opt-in (and out again if necessary). Spending limit emails to advise players when reaching a limit.
Opening and closing hours	MyLotto Site Hours: <ul style="list-style-type: none"> • Mon/Tue/Thu/Fri/Sun: 6.30am – 11pm • Wed/Sat: 6.30am – 12 midnight (Lotto draw days) Instant Kiwi Online Hours: <ul style="list-style-type: none"> • 6.30am – 10:10pm – all days.
Terms of play	Mandatory acceptance of site terms and conditions. Lotto NZ's terms and conditions outline our commitment to responsible gambling and each player's requirement to adhere to mandatory spending limits.
GAME CONFIGURATION	
Predetermined outcomes	In accordance with our mandate under the Gambling Act, all games are games of chance, and any Instant game has a predetermined outcome (determined before or simultaneously at the time of purchase).
Internal responsible gaming guidelines	Set of internal guiding principles to ensure game design and marketing strategy adhere to the ASA code of ethics.
ACCESS TO INFORMATION	
Harm minimisation information	Responsible Gaming information available online at MyLotto.co.nz
Game odds	Players always have access to the odds and average prize payouts for all games.
Gambling behaviour	All players can self-test to determine gambling behaviour.
Treatment referral	Information about responsible gaming and contact details for problem gambling treatment providers will be easily accessed.

APPENDIX 2: Lotto NZ games

GAME	HOW THE GAME IS PLAYED	WHEN
Lotto	<ul style="list-style-type: none"> • 6 numbers and 1 bonus number drawn from 40 numbers. • To win, match a minimum of 3 of the 7 numbers drawn. Lotto First Division prize is • \$1 million every draw. • Prizes won in an average week range between a bonus ticket and, for the correct 6 numbers, up to \$1 million. • Promotions for extra prizes involving vouchers with unique serial numbers, issued with qualifying Lotto tickets, are run 3 times a year (Christmas, Mother's Day and Father's Day). 	<ul style="list-style-type: none"> • Saturdays at 8pm on TV1 and Wednesdays at approx. 8:20pm. • Available via TVNZ OnDemand approx 30mins after draw.
Powerball	<ul style="list-style-type: none"> • Played in conjunction with Lotto with a 1 from 10 draw. • Correct selection increases the size of your Lotto win. • Prizes range between \$15 and \$4 million-plus (up to \$50 million). 	As above (part of the Lotto draw)
Strike	<ul style="list-style-type: none"> • Try to match the first 4 Lotto numbers drawn in the order in which they are drawn. • Win by matching 1 or more numbers in their correct order. • Prizes range between a free ticket for 1 number and \$100,000-plus for 4 numbers. • Strike 4 (Division 1) jackpots each draw if not won, up to \$1 million. 	As above (part of the Lotto draw)
Keno	<ul style="list-style-type: none"> • Correctly guess 0–10 numbers out of 20 numbers randomly drawn from 80 possible numbers. • Prizes range between \$1 and \$250,000 for \$1 spent. • Add on Multiplier to increase your prize by 1.5, 2, 3, 5 or 10 times. 	Daily at 10am, 1pm, 3pm, and 6pm.
Bullseye	<ul style="list-style-type: none"> • Correctly guess a 6-digit number from 000,000 to 999,999 and the closer the selection is to the number randomly drawn 	6pm daily

	<p>that day, the bigger the prize that can be won.</p> <ul style="list-style-type: none"> • The top prize starts at \$100,000 and jackpots daily if not won. • The jackpot can grow up to \$400,000 at which stage a must be won draw is called. 	
Instant Kiwi	<ul style="list-style-type: none"> • Scratch off latex coverings on cards of varying designs with different game play for each design. • There are up to 21 different Instant Kiwi designs available at any one time. • Prizes range between a free ticket and \$1 million, with the top prize dependant on the ticket purchased. 	Can purchase and play when a Lotto NZ retail store is open
Instant Kiwi online	<ul style="list-style-type: none"> • Interactive digital games of varying designs with different game play for each design. • Instant Kiwi currently has 40 games on offer, with prizes ranging from the original ticket price to \$200,000. 	Games available via web and app during MyLotto's operating hours.