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</table>
Introduction

Lotterywest has a long and proud history of serving the community of Western Australia. Established as the Lotteries Commission of Western Australia in 1932 and holding its first lottery “consultation” in March 1933, Lotterywest was established to provide a State authorised form of gambling, to control illegal lotteries and most importantly to raise and distribute money for the benefit of the community of Western Australia.

Today, Lotterywest continues to operate the official Western Australian state lottery and to provide the chance to dream to the many loyal players who enjoy our lotto products, instant lottery games, our daily numbers game, Cash 3 and Soccer Pools. It continues to have the responsibility to raise funds for specified purposes and to distribute grants directly to eligible community organisations.

This Statement of Corporate Intent affirms the continuation of our commitment to be a leader in building a better Western Australia.

Lotterywest is a values based organisation. Our values of Rewarding, Inspiring, Trusted and Engaging create the foundation for all aspects of our business.

Lotterywest under the Lotteries Commission Act of 1990 which replaced the original Lotteries [control] Act of 1954 not only operates the lottery but also distributes the proceeds directly to a wide range of community organisations and charities throughout Western Australia. This makes Lotterywest unique among the lotteries operating in other Australian states with only a very small number of other lotteries in the world sharing this direct grant making responsibility. Increasingly Lotterywest has taken a leadership role both in this state as well as nationally in our innovative grant making and community development practices.

In addition to the grants we distribute directly, Lotterywest’s charter is also to raise money for the State’s health services, sporting organisations and the arts. This money is distributed by the relevant Government agencies.

We operate our games of Lotto as a partnership with the other Lottery operators in Australia in a structure known as the ‘Bloc’, to create a shared prize pool of a size which players find attractive. The population of most states in Australia, Western Australia included, the population is not of a sufficient size to generate the big life changing win for which our players are looking. This means our partnership with our colleagues in other states and territories is a critical element of our planning for continued success in our business.

Our product distribution channels are another critical element of our success. Lotterywest’s Strategic Plan outlines our continued focus on the support and development of the 550 small retail businesses (mostly newsagencies and specialist kiosks with a smaller number of some other styles of retail business) throughout the state who sell Lotterywest products.

Managing a retail distribution network in a state the size of Western Australia is a particular challenge for us. In addition in response to modern consumer expectation we also have an online sales channel, launched in February 2011. There will be increasing emphasis on that channel in the future while we continue to support and to develop the retail channel which will still deliver the vast majority of our product sales.
Lotterywest is committed to responsible gaming practice, recognising the need for balance between our commercial operations and the need to raise funds for our beneficiaries with our responsibilities to our players and to the public. This means our goal is to ensure business sustainability and achieve modest growth each year while observing our commitment to responsible play.

The environment in which we operate shapes our capacity to achieve our goals. As with all businesses, we operate in rapidly changing times. The overall economic climate will continue to be one that presents challenges for us in accurately forecasting future sales income and achieving the patterns of growth which our beneficiaries have experienced from us for more than a decade.

Changes in technology continue to add value and drive efficiencies and we will continue to invest in the business improvements which technology can offer.

In the financial year covered by this Statement of Corporate Intent (2012/13), we will continue to seek new opportunities for improved products and services to our players and retailers, to be partners of choice to the many providers of the goods and services we require to operate our lottery, to provide opportunities for the development of our staff and to provide community leadership and an innovative, flexible and responsive grants program to the community sector of Western Australia.

The Board and staff of Lotterywest are committed to service and excellence in all that we do.

Jan Stewart PSM
Chief Executive Officer Lotterywest
Statement of Strategic Intent

Our Vision
To be a leader in building a better Western Australia

Our Purpose
To enhance the quality of life and well being for all Western Australians through the funding and support we provide to our beneficiaries and by operating our lottery business with excellence and integrity.

Our Values
Lotterywest is an organisation committed to serving the community of Western Australia with excellence and integrity. Four core values underpin all that we do:

Rewarding We seek to ensure that the experience of all those with whom we come into contact – players, grant seekers, business partners and the community as a whole will be a valued and rewarding one and that all will be treated with courtesy and respect.

Inspiring We motivate, encourage and inspire ourselves and others to achieve greater things for the benefit of the community of Western Australia.

Trusted We are honest, reliable and trustworthy. We conduct ourselves professionally with the highest standards of integrity and excellence in all our business operations and in our relationships with all our stakeholders.

Engaging We actively seek relationships with all our stakeholders based on principles of mutual respect and strive to enhance the achievement of their goals and ours.

In enacting these values, we recognise the diversity of the interests of our stakeholders and seek to achieve a balance of approach which takes into account this diversity.
Reporting Framework

This document details Lotterywest’s key financial and operational objectives for the 2012/13 financial year. It outlines the objectives and assumptions underpinning the budget projections.

Lotterywest, as part of its ongoing business practice, prepares various planning documents including a strategic plan and annual business plan. These documents are approved by the Lotterywest Board and submitted to the responsible Minister [at this time, the Minister for Lotterywest is the Premier].

Lotterywest’s planning requirements are now formally part of the Lotteries Commission Act 1990 (as amended). This was part of a State Government initiative (under the Machinery of Government Bill), to improve consistency in planning and service delivery across Western Australian public sector organisations by legislating the requirement for all government trading enterprises to provide two planning documents:

1. Strategic Development Plan (SDP), providing a 5 year outlook; and
2. Statement of Corporate Intent (SCI), providing a 1 year outlook.

Lotterywest’s Strategic Plan and Annual Business Plan comply with the requirements as detailed in the Regulations to the Act for the annual submission of an SDP and SCI. These documents are submitted to the Premier as the responsible Minister.

Lotterywest Reporting Framework

The following table details the key planning documents prepared and published by Lotterywest.
<table>
<thead>
<tr>
<th>Internal Use Documents</th>
<th>Description</th>
<th>Use</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strategic Plan</strong></td>
<td>Outlines key business outcome areas and high level strategies to achieve outcomes</td>
<td>Approved by the Lotterywest Board and used internally to focus work resources and effort and to monitor and evaluate organisational strategies in achieving outcomes</td>
</tr>
<tr>
<td><strong>Annual Business Plan and Budget</strong></td>
<td>Details organisational financial and operational objectives for the financial year and how these will be achieved</td>
<td>Approved by the Lotterywest Board and used internally to focus work resources and effort and to monitor and evaluate organisational performance against budget and targets</td>
</tr>
<tr>
<td><strong>Business Unit Annual Operational Plans</strong></td>
<td>Outlines Business Unit objectives, detailing specific initiatives and activities to achieve objectives</td>
<td>Approved by the Business Unit General Manager and used by Business Units to focus work resources and effort and to monitor and evaluate outcomes against plan</td>
</tr>
<tr>
<td><strong>Legislated Required Documents</strong></td>
<td>Description</td>
<td>Use</td>
</tr>
<tr>
<td><strong>Lotterywest Strategic Development Plan (SDP)</strong></td>
<td>This document is based on Lotterywest's Strategic Plan (see above) but also includes additional information as stipulated under section 8 of the Lotteries Commission Act 1990 (as amended). Additional information includes: economic and financial objectives, capital expenditure requirements, competitive and pricing strategies</td>
<td>Approved by the Lotterywest Board and submitted to the Premier as the responsible Minister, and to the Department of Treasury and Finance</td>
</tr>
<tr>
<td><strong>Lotterywest Statement of Corporate Intent (SCI)</strong></td>
<td>This document is based on Lotterywest's Annual Business Plan and Budget (see above) but also includes additional information as stipulated under section 8 of the Lotteries Commission Act 1990 (as amended). Additional information includes: accounting policies, and the type of information provided in an annual report</td>
<td>Approved by the Lotterywest Board and submitted to the Premier as the responsible Minister, and to the Department of Treasury and Finance. Document is subsequently tabled in Parliament</td>
</tr>
</tbody>
</table>
The following information outlines Lotterywest’s key operational and financial objectives for the financial year 2012/13. The information detailed in this report aligns with and supports the outcomes and strategies documented in Lotterywest’s Strategic Development Plan 2011 – 2015 (also referred to Lotterywest’s Strategic Plan 2011 – 2015).

Budget 2012/13

Executive Summary

- Total 2011/12 sales forecast $728.5m
- Total 2012/13 sales budget $762.1m
- Increase on current year forecast $33.6m (4.6%)
- Operational expenses 2012/13 budget $60.3m
- Expenses as a % of sales 7.9%
- Total statutory and direct funding 2012/13 $251.6m
- Direct grants 2012/13 $111.0m

Overview

The 2012/13 sales budget of $762.1 million represents a growth of 4.6% ($33.6 million) on the sales forecast for the current financial year.

The planning process included analysis of environmental and economic factors combined with a bottom up approach to establish sales budgets for each game and each draw.

Western Australia (according to Economic Forecast published by Department of Treasury, WA) is the fastest growing state in Australia. The estimated annual population growth is 2.1% - 2.2%, estimated Consumer Price Index for the same period is the lowest with 2.75% currently up to 3.25% in three years time.

The key factors considered in establishing the 2012/13 sales budget are:
- The full year impact of changes to Monday and Wednesday Lotto launched in February 2012
- One Saturday Lotto Superdraw with an upgraded Division One offer to $30 million
- Introduction of $20 instant tickets on a permanent basis
- Impact of planned business initiatives, including:
  - Greater marketing support for Play Online
  - New marketing communications approach
  - Expanded retailer development program with retailer incentives as a key component of the program
  - Continuous improvement of the instant ticket (Scratch’n’Win) portfolio
Sales Budget 2012/13

The table below details sales trend by product including the current year’s forecast and planned sales for 2012/13 financial year.

<table>
<thead>
<tr>
<th>PRODUCT SALES</th>
<th>Actual 2009/10 $000</th>
<th>Actual 2010/11 $000</th>
<th>Forecast 2011/12 $000</th>
<th>Budget 2012/13 $000</th>
<th>Budget vs Forecast $000</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Saturday Lotto</td>
<td>298,229</td>
<td>320,904</td>
<td>362,314</td>
<td>362,400</td>
<td></td>
<td>86</td>
</tr>
<tr>
<td>Monday/ Wednesday Lotto</td>
<td>50,487</td>
<td>47,260</td>
<td>56,340</td>
<td>62,020</td>
<td></td>
<td>5,680</td>
</tr>
<tr>
<td>OZ Lotto</td>
<td>125,770</td>
<td>104,147</td>
<td>97,475</td>
<td>111,200</td>
<td></td>
<td>13,725</td>
</tr>
<tr>
<td>Powerball</td>
<td>114,467</td>
<td>99,274</td>
<td>98,283</td>
<td>109,800</td>
<td></td>
<td>11,517</td>
</tr>
<tr>
<td>Super 66</td>
<td>2,848</td>
<td>2,800</td>
<td>2,884</td>
<td>2,980</td>
<td></td>
<td>96</td>
</tr>
<tr>
<td>Soccer Pools</td>
<td>1,785</td>
<td>1,295</td>
<td>1,037</td>
<td>1,040</td>
<td></td>
<td>3</td>
</tr>
<tr>
<td>Cash 3</td>
<td>8,345</td>
<td>8,851</td>
<td>9,339</td>
<td>9,676</td>
<td></td>
<td>336</td>
</tr>
<tr>
<td>Scratch’n’Win</td>
<td>99,552</td>
<td>98,812</td>
<td>100,850</td>
<td>103,031</td>
<td></td>
<td>2,181</td>
</tr>
<tr>
<td><strong>Total Sales</strong></td>
<td><strong>701,483</strong></td>
<td><strong>683,344</strong></td>
<td><strong>728,521</strong></td>
<td><strong>762,147</strong></td>
<td><strong>33,625</strong></td>
<td>4.6%</td>
</tr>
</tbody>
</table>

Sat, Mon & Wed          | 348,716             | 368,164             | 418,654                | 424,420             |                         | 5,766                        | 1.4% |
| OZ & PB                | 240,237             | 203,421             | 195,757                | 221,000             |                         | 25,243                       | 12.9% |

Sales contribution from the jackpotting Lotto games (OZ Lotto and Powerball combined) is anticipated to climb back up to 29.0% for 2012/13 – which is in accordance with the long term average.

Annual Sales Contribution by Products

Saturday Lotto

The budgeted sales for Saturday Lotto of $362.4 million represents only minimal growth on the estimated outcome for the current financial year. Given that the current financial year comprises one more draw for Saturday Lotto than the 2012/13 financial year, the ‘real’ annual growth equates to approximately 2.0%.
Monday and Wednesday Lotto

Monday and Wednesday Lotto were added to the Lotterywest portfolio in May 2006. As illustrated below, these games gradually grew in popularity aided by the introduction of the $5 million Superdraw offer on Monday Lotto and a price increase for both games in October 2008.

The recent changes to Monday and Wednesday Lotto were introduced in the last week of February 2012. The changes include a 25% price increase, the introduction of Prize Division 6 and the removal of the jackpot function.

Similar changes to Saturday Lotto in January 2011 proved to be well received by the players (current prize rise retention is almost 100%).

The 2012/13 combined sales budget for Monday and Wednesday Lotto is 10.1% up on the expected outcome for the current year and is based on conservative price rise retention of 50% (taking into account that the lack of jackpots activities - although replaced by the double dividend promotion - may lead to relatively low price rise retention).

OZ Lotto and Powerball

The sales performance of both OZ Lotto & Powerball depends heavily on the frequency and level of jackpots. Player spend and participation correlates directly with jackpotting levels as does Lotterywest’s marketing support.

The lack of jackpot activity in recent year was the main contributing factor to the sales achieved being lower than anticipated. The price increases for OZ Lotto and Powerball in June 2011 (10.0% and 15.4% respectively) helped to maintain the sales level but failed to achieve the expected price rise retention.

The 2012/13 combined sales budget for OZ Lotto & Powerball amounts to $221.0 million and represents an increase of $25.2 million (12.9%) over the estimated outcome for the current financial year.

The number of jackpots for OZ Lotto & Powerball used in establishing the 2012/13 sales budget is based on the long term average number of jackpot occurrence for each game and is in line with the jackpot incidence model established by the Bloc. The level, or prize offered for each jackpot is also agreed to by the Bloc.
The expected sales at each jackpot level, however, are based on the current sales trend in Western Australia and planned marketing support.

**OZ Lotto**

As illustrated below, sales for OZ Lotto over the past years are showing a declining trend, predominantly as a result of less frequent jackpotting.

The first ever price increase of 10% in June 2011 failed to achieve the expected price rise retention of 70% but helped to stop the sales decline in the absence of jackpotting activities.

The figures below show the sales and Division 1 offers over the three year period. The last two years show similar sales and division 1 offers with a significant reduction for both figures when compared to 2009/10 (4.0% and 17.5% in sales and division 1 offer respectively).

<table>
<thead>
<tr>
<th>OZ Lotto</th>
<th>YTD, Feb’10</th>
<th>YTD, Feb’11</th>
<th>YTD, Feb’12</th>
<th>Var. to LY (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$69.80M</td>
<td>$67.64M</td>
<td>$67.03M</td>
<td>-0.9%</td>
</tr>
<tr>
<td>Div.1 Offer</td>
<td>$360M</td>
<td>$308M</td>
<td>$297M</td>
<td>-3.6%</td>
</tr>
</tbody>
</table>

The sales budget 2012/13 for OZ Lotto of $111.2 million represents sales increase of $13.7 million (14.1%) in comparison to the expected outcome of the current financial year.

The sales budget is based on the assumption that providing the sufficient level of marketing support the long term sales trend of $2.1 million per week will continue.
Powerball

As illustrated in the chart below, sales of Powerball have stagnated over the past years. The price increases agreed at Bloc level helped to stop the sales decline but did not generate significant sales increase. The lower than average frequency of jackpotting activities over the past two years certainly contributed to this trend. Sales figures from our Bloc partners indicate this is a national trend.

![Powerball - Weekly Sales Trend](chart)

This is why there are improvements to Powerball being planned by the Bloc for the last term in the calendar year 2012, but as these changes are not yet formally approved they are not been factored into the budget.

The 2012/13 sales budget of $119.8 million represents an increase of 11.7% on the anticipated outcome for the current financial year. The recent week’s sales are showing higher price rise retention and combined with the new communication strategy are expected to deliver an improved sales results.

**Super 66, Soccer Pools, Cash 3**

These products continue to add value and choice to Lotterywest’s portfolio and are predominantly played by the game’s loyal players. Combined sales of Super 66, Soccer Pools and Cash 3 of $13.7 million represent 1.8% of total annual sales.

The 2012/13 sales budget for these games is based on the current sales trends and with the exemption of the daily televised draws for Cash 3 there is no marketing support allocated to these products. An increase of 3.7% on the current year is budgeted based on the population growth and the natural growth of the games.

**Instant Tickets (Scratch’n’Win)**

The 2012/13 sales budget for Lotterywest’s instant ticket games, Scratch’n’Win, is $103.0 million. This equates to an increase of $2.2 million (2.2%) on the current year’s estimated outcome.

This budgeted sales growth is expected to be the result of;

- the introduction of $20 premium games on a permanent basis
- renewed focus on improved ticket design and prize structures and
- more ticket/game targeted marketing support
The charts below show annual Scratch’n’Win sales over the past decade. Total sales have remained relatively flat since 2006/07 with some significant changes in sales contribution by price point:

The significant sales growth during 2006/07 financial year was attributed to the introduction of the $10 price point. The introduction of this game proved to be a successful addition to the Scratch’n’Win portfolio and paved the way for other premium games.

The introduction of higher price point tickets has become a global trend for many successful lotteries. The sales budget 2012/13 is based on the scenario that the premium tickets are a permanent part of the Scratch’n’Win portfolio.
# Profit & Loss Statement

Following is the Profit & Loss forecast for the current financial year and preliminary budget for 2012/13.

<table>
<thead>
<tr>
<th>PROFIT And LOSS</th>
<th>Actual 2009/10 $000</th>
<th>Actual 2010/11 $000</th>
<th>Forecast 2011/12 $000</th>
<th>Budget 2012/13 $000</th>
<th>Budget vs Forecast $000</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SALES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lotto</td>
<td>591,801</td>
<td>574,386</td>
<td>617,296</td>
<td>648,400</td>
<td>31,104</td>
<td>5.0%</td>
</tr>
<tr>
<td>Scratch'nWin</td>
<td>99,552</td>
<td>98,812</td>
<td>100,850</td>
<td>103,031</td>
<td>2,181</td>
<td>2.2%</td>
</tr>
<tr>
<td>Cash 3</td>
<td>8,345</td>
<td>8,851</td>
<td>9,339</td>
<td>9,676</td>
<td>336</td>
<td>3.6%</td>
</tr>
<tr>
<td>Soccer Pools</td>
<td>1,785</td>
<td>1,295</td>
<td>1,037</td>
<td>1,040</td>
<td>3</td>
<td>0.3%</td>
</tr>
<tr>
<td>Play On-Line (Incl. in Lotto)</td>
<td>0</td>
<td>0</td>
<td>11,742</td>
<td>16,045</td>
<td>4,303</td>
<td>36.6%</td>
</tr>
<tr>
<td><strong>OTHER INCOME</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest</td>
<td>14,687</td>
<td>18,801</td>
<td>17,000</td>
<td>14,000</td>
<td>-3,000</td>
<td>-17.6%</td>
</tr>
<tr>
<td>Forfeited Prizes</td>
<td>9,102</td>
<td>7,293</td>
<td>5,828</td>
<td>6,115</td>
<td>287</td>
<td>4.9%</td>
</tr>
<tr>
<td>Other</td>
<td>4,786</td>
<td>4,257</td>
<td>4,429</td>
<td>4,575</td>
<td>146</td>
<td>3.3%</td>
</tr>
<tr>
<td>Play On-Line (Other Income)</td>
<td>0</td>
<td>0</td>
<td>-54</td>
<td>-74</td>
<td>-20</td>
<td>36.6%</td>
</tr>
<tr>
<td><strong>TOTAL INCOME</strong></td>
<td>701,483</td>
<td>683,344</td>
<td>728,521</td>
<td>762,147</td>
<td>33,625</td>
<td>4.6%</td>
</tr>
<tr>
<td><strong>COST OF SALES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prizes</td>
<td>392,952</td>
<td>383,415</td>
<td>409,260</td>
<td>427,572</td>
<td>18,312</td>
<td>4.5%</td>
</tr>
<tr>
<td>Retailer Commission</td>
<td>57,772</td>
<td>56,010</td>
<td>59,879</td>
<td>62,644</td>
<td>2,766</td>
<td>4.6%</td>
</tr>
<tr>
<td>Play On-Line (Ret.Comms)</td>
<td>0</td>
<td>0</td>
<td>-969</td>
<td>-1,325</td>
<td>-355</td>
<td>36.6%</td>
</tr>
<tr>
<td>GST</td>
<td>28,056</td>
<td>27,275</td>
<td>29,141</td>
<td>29,766</td>
<td>625</td>
<td>2.1%</td>
</tr>
<tr>
<td><strong>EXPENDITURE</strong></td>
<td>730,058</td>
<td>713,695</td>
<td>755,725</td>
<td>786,763</td>
<td>31,038</td>
<td>4.1%</td>
</tr>
<tr>
<td>Operating Exp.</td>
<td>47,187</td>
<td>49,763</td>
<td>55,120</td>
<td>60,266</td>
<td>5,146</td>
<td>9.3%</td>
</tr>
<tr>
<td><strong>FUNDING</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hospitals</td>
<td>103,818</td>
<td>101,012</td>
<td>107,378</td>
<td>112,479</td>
<td>5,101</td>
<td>4.8%</td>
</tr>
<tr>
<td>Sports</td>
<td>12,977</td>
<td>12,627</td>
<td>13,422</td>
<td>14,060</td>
<td>638</td>
<td>4.8%</td>
</tr>
<tr>
<td>Arts</td>
<td>12,977</td>
<td>12,627</td>
<td>13,422</td>
<td>14,060</td>
<td>638</td>
<td>4.8%</td>
</tr>
<tr>
<td>Direct Grants</td>
<td>105,031</td>
<td>112,487</td>
<td>110,725</td>
<td>111,000</td>
<td>275</td>
<td>0.2%</td>
</tr>
<tr>
<td><strong>TOTAL EXPENSES</strong></td>
<td>760,770</td>
<td>755,216</td>
<td>797,377</td>
<td>830,522</td>
<td>33,145</td>
<td>4.2%</td>
</tr>
<tr>
<td><strong>GRANTS &amp; SUBSIDIES</strong></td>
<td>28,056</td>
<td>27,275</td>
<td>29,141</td>
<td>29,766</td>
<td>625</td>
<td>2.1%</td>
</tr>
<tr>
<td><strong>SURPLUS/LOSS FOR PERIOD</strong></td>
<td>-2,656</td>
<td>-14,246</td>
<td>-12,511</td>
<td>-13,993</td>
<td>-1,482</td>
<td>11.8%</td>
</tr>
<tr>
<td><strong>PROFIT/ LOSS</strong></td>
<td>-2,656</td>
<td>-14,246</td>
<td>-12,511</td>
<td>-13,993</td>
<td>-1,482</td>
<td>11.8%</td>
</tr>
</tbody>
</table>

### Summary:

- Total sales for the 2012/13 financial year of $762.1 million represent an increase of 4.6% over the expected outcome for the current year.
- Play Online sales are included in the total lotto sales and shown separately to illustrate the financial impact of this distribution channel on other income and retailers commission components.
- Operating expenses amounted to $60.3 million. This is an increase of $5.1 million on the current years forecast and results in an expense to sales ratio of 7.9%.
- Total funding to the community of $251.6 million represents 33.0% of total sales.
- Direct Grants of $111.0 million represents an increase of 0.2% over the current year's outcome.
Reserves (Retained Earnings)

The draw down of Retained Earnings (Reserves) apart from the use for investment in business growth is part of the overall strategy to distribute surplus reserves back to the community through the direct grants program as provided for in the Lottery Commission Act (1990). The Board has taken the view that there should be a managed draw down on reserves over a number of years to allow the direct grants budget to remain at relatively stable levels with modest growth each year. Longer term financial forecasts indicate a levelling off of the reserves position once the surpluses have been distributed. We will continue to carefully monitor the need and expectations of the community sector to ensure that we do not create a level of expectation that cannot be met and will adjust the direct grant budgets as business requirements suggest is necessary.

Risk Evaluation

The projection of a 4.6% per annum sales growth needs to be understood in the context of the intrinsic unpredictability of the Lottery business which makes the accurate forecasting of sales growth a significant challenge. The most unpredictable element is the performance of the two jackpoting game – OZ Lotto and Powerball which make up approximately 30% of our sales revenue.

Saturday Lotto (now we have more than a year’s experience of sales since the game changes in January 2011) is easier to predict with accuracy. It is less easy to predict the performance of Monday/Wednesday Lotto as we have only a couple of weeks of sales results since the game changes introduced in mid February 2012.

Our sales forecasts for the jackpoting games of OZ Lotto and Powerball are based on a statistical model of frequency of jackpots used by all Bloc members. However the extent to which jackpot events occur in practice is highly unpredictable (as can be evidenced by the pattern of very low jackpots over the last 12 months and indeed the past two years).

Scratch’n’Win has been relatively flat in its sales performance over a number of years. While we have had some success with new products and new price points and will continue to work on the product range together with new marketing, we need to be realistic in the sales targets set for this product.

Combined with the fundamentally limited predictability of lottery product performance is the unpredictability of the performance of the retail market in this state in the context of the economic climate and changes in consumer behaviour. The last 12 months have demonstrated a significant change in retailing and consumer behaviour with economists and others predicting this to continue over the medium term.

Therefore, these sales figures represent our best estimate which is a cautiously optimistic one using all the information available to us about trends generally in mature lotteries such as ours and what we believe is achievable in the current Western Australian market assuming we successfully implement the appropriate marketing communications mix for all our products and with the support of the retail distribution network.

Because of the direct relationship between our sales performance and the return to Health, Arts and Sports according to the formula specified in the Act, we have always set a cautious sales target. A small variation downwards from the forecast to actual results can be quite significant particularly for Arts and Sports. This means that we tend to err on the side of caution so that those departments can reasonably confidently plan on the revenue
forecast from Lotterywest. If the result is a more positive one then they can use the extra revenue for the benefit of the organisations for programs supported by the Lotterywest generated revenue but do not rely on it.

We believe that the risk of Lotterywest not achieving these estimates needs to be documented realistically and a conservative approach should be taken in the projections of the revenue we expect to raise for all beneficiaries and which we expect to distribute in the form of Lotterywest direct grants in this period.

**Note: Financial Approval Disclaimer**

The figures provided in this report represent the budget position of Lotterywest at time of completion, which was the final draft of the Budget 2012/13 completed in April 2012. Budget figures will be submitted to State Government for approval end of April.

**Operational Expenses**

Lotterywest’s estimated operating expenses for 2012/13 are $60.3 million as compared to the current 2011/12 forecast of $55.1 million; this represents an increase of 9.3%.

There is a significant increase this year in advertising and marketing expenses. The primary reason for this is the cyclical nature of media production.

Approximately every three years, a major investment in new marketing and communication materials is required. After more than a year of planning with the new communications providers we will launch a completely new approach to the marketing promotion of the Lotto products, OZ Lotto and Powerball as well as Scratch’n’Win. This will include the use of a range of communication channels including the digital channels. With the proliferation in recent times of new communication channels the media budget will need to increase as well to ensure we reach the optimum number of players and potential players.

We anticipate that the material which will be produced in 2012/13 will be of a style which with some relatively minor ‘refreshment’ can be used for the following three years before the next major investment will be required.

Experience demonstrates that the achievement of our sales targets is very dependent on the quality of the production and on the placement of our marketing messages. We believe the investment proposed in this year’s budget will achieve the goals we have outlined.

As well as product marketing, $2.5M has been allowed for corporate and grant advertising. The most recent corporate advertising, the award winning ‘Jars’ material was made more than 3 years ago and has been taken off the air. It is now time for a new corporate campaign which will complement the new product marketing campaign together with new grant material to continue to make the strong connection between the products and the benefit to the community that is the result of a lottery product purchase. We need also to promote the availability of Lotterywest grants to potential grant applicants.

As illustrated in the table below, the 2012/13 expense budget represents an increase of 9.3% ($5.1 million) in comparison to the expense forecast for the 2011/12 financial year. Excluding depreciation costs, the increase in expenses is 11.2% ($5.4 million).
<table>
<thead>
<tr>
<th>Lotterywest Operating Expenses</th>
<th>Budget 2011/12 $000</th>
<th>Budget 2012/13 $000</th>
<th>Budget 2011/12 vs Budget 2012/13 $000</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Expenses (Excl. Depreciation)</td>
<td>48,262</td>
<td>53,648</td>
<td>5,386</td>
<td>11.2%</td>
</tr>
<tr>
<td>Depreciation</td>
<td>6,859</td>
<td>6,618</td>
<td>-241</td>
<td>-3.5%</td>
</tr>
<tr>
<td>Total Expenses</td>
<td>55,120</td>
<td>60,266</td>
<td>5,146</td>
<td>9.3%</td>
</tr>
<tr>
<td>Total Expenses as % of Sales</td>
<td>7.6%</td>
<td>7.9%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Salaries**
The salary cost of $19.9 million in 2012/13 represents an increase of 2.8% compared to the budgeted result for this financial year.

<table>
<thead>
<tr>
<th>Lotterywest People</th>
<th>Budget 2011/12 $000</th>
<th>Budget 2012/13 $000</th>
<th>Budget 2011/12 vs Budget 2012/13 $000</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries (Incl. On-Cost)</td>
<td>19,403</td>
<td>19,940</td>
<td>537</td>
<td>2.8%</td>
</tr>
<tr>
<td>Capitalised Salaries</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0.0%</td>
</tr>
<tr>
<td>Total Salaries</td>
<td>19,403</td>
<td>19,940</td>
<td>537</td>
<td>2.8%</td>
</tr>
<tr>
<td>Staffing Levels</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Full Time Equivalent</td>
<td>195.6</td>
<td>196.3</td>
<td>0.7</td>
<td>0.4%</td>
</tr>
</tbody>
</table>

While headcounts remain relatively steady at 196, there has been some movement between functional areas and some restructures which have increased the number of positions at more senior level while reducing those at a more junior level.
Capital Expenditure

The following table details Lotterywest’s proposed capital expenditure plan for 2012/13. Capital expenditure items need to be approved by Government.

<table>
<thead>
<tr>
<th>Capital Investment Plan</th>
<th>Budget 2011/12 $000</th>
<th>Budget 2012/13 $000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land and Buildings</td>
<td>500</td>
<td></td>
</tr>
<tr>
<td>New Gaming / Lotto Games</td>
<td>200</td>
<td>594</td>
</tr>
<tr>
<td>Other Computer Equipment</td>
<td>600</td>
<td></td>
</tr>
<tr>
<td>Plant and Equipment</td>
<td>200</td>
<td></td>
</tr>
<tr>
<td>Point of Sale</td>
<td>585</td>
<td></td>
</tr>
<tr>
<td>Management Information Systems</td>
<td>280</td>
<td></td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>2,165</strong></td>
<td><strong>794</strong></td>
</tr>
</tbody>
</table>

Lotterywest Key Performance Indicators

The following Key Performance Indicators represent the annual performance targets Lotterywest aims to achieve in 2012/13 and the measures on which performance will be evaluated. Progress towards the achievement of targets is monitored regularly with explanations provided on variances between actual and planned performance.

The following information outlines the structure for reporting on Lotterywest’s Key Performance Indicators.

In accordance with Treasurer’s Instruction 904, these indicators have been selected as fulfilling the required qualitative characteristics; relevance, appropriateness, verifiability, freedom from bias and quantifiability.

Two distinct types of indicators are identified:

1. **Effectiveness indicators** - measure the extent to which outcomes are achieved; and
2. **Efficiency indicators** - compare resources input against resulting outputs.

The table below shows the Key Performance Indicators for Lotterywest.
## Key Performance Indicator Table

<table>
<thead>
<tr>
<th>Business Element</th>
<th>Outcomes</th>
<th>Measures</th>
<th>Category of Measure</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Beneficiaries</td>
<td>1.1</td>
<td>Grants per Capita</td>
<td>Effectiveness</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Grants as % of Sales</td>
<td>Effectiveness</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Grants expenses per $ of grants distributed</td>
<td>Effectiveness</td>
</tr>
<tr>
<td></td>
<td>1.2</td>
<td>Quality of Service to Grants Customers</td>
<td>Effectiveness / Efficiency</td>
</tr>
<tr>
<td></td>
<td></td>
<td>RAP signed off and key action items implemented</td>
<td>Efficiency</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Grant program includes RAP principles in grants distribution</td>
<td>Efficiency</td>
</tr>
<tr>
<td></td>
<td></td>
<td>10% increase in use of Grants Online</td>
<td>Effectiveness</td>
</tr>
<tr>
<td>CEO Performance Agreement</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 Lottery Operations</td>
<td>2.1</td>
<td>Sales per Adult</td>
<td>Effectiveness</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Lottery Expenses as % of Sales</td>
<td>Efficiency</td>
</tr>
<tr>
<td></td>
<td></td>
<td>10% reduction (6 business days) in processing time of retail licenses</td>
<td>Efficiency</td>
</tr>
<tr>
<td>CEO Performance Agreement</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 Organisational Development and People</td>
<td>3.1</td>
<td>Ratio of engaged to actively disengaged employees</td>
<td>Effectiveness</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Number of workers compensation claims resolved</td>
<td>Effectiveness</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Lost time Injury Frequency</td>
<td>Effectiveness</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Unscheduled Absence Rate</td>
<td>Effectiveness</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Maintain staff retention levels within sector standards</td>
<td>Effectiveness</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Meet equity and diversity targets</td>
<td>Effectiveness</td>
</tr>
<tr>
<td></td>
<td></td>
<td>95% of staff trained in integrity and ethical decision making</td>
<td>Effectiveness</td>
</tr>
<tr>
<td>CEO Performance Agreement</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4 Business Framework</td>
<td>4.1</td>
<td>Selling System Downtime</td>
<td>Effectiveness</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Sales per FTE</td>
<td>Efficiency</td>
</tr>
<tr>
<td>5 Reputation and Stakeholder Relations</td>
<td>5.1</td>
<td>Positive attitude to the Lotterywest Brand</td>
<td>Effectiveness</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Positive experience of Stakeholder engagement with Lotterywest</td>
<td>Effectiveness</td>
</tr>
</tbody>
</table>
Accounting Policies

The following accounting policies apply to the preparation of Lotterywest’s annual financial statements.

1. Australian Equivalents to International Financial Reporting Standards

Lotterywest is the trading name of the Lotteries Commission which operates according to the provisions of the Lotteries Commission Act 1990 as amended.

Lotterywest’s financial statements refer to the Lotteries Commission as Lotterywest.

Lotterywest’s financial statements are been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS), which comprise a Framework for the Preparation and Presentation of Financial Statements (the Framework) and Australian Accounting Standards (including the Australian Accounting Interpretations).

In preparing financial statements Lotterywest has adopted, where relevant to its operations, new and revised Standards and Interpretations from their operative dates as issued by the Australian Accounting Standards Board (AASB) and formerly the Urgent Issues Group (UIG).

Early adoption of Standards

Lotterywest cannot early adopt an Australian Accounting Standard or Australian Accounting Interpretation unless specifically permitted by Treasurer’s Instruction 1101 “Application of Australian Accounting Standards and Other Pronouncement”. No Standards and Interpretations that have been issued or amended but are not yet effective have been early adopted by Lotterywest for the annual reporting period. Consequently, Lotterywest has not applied the following Australian Accounting Standard that has been issued but is not yet effective. This standard will be applied from its application date:

Future Impact of Australian Accounting Standards not yet operative

AASB 101- ‘Presentation of Financial Statements’ (September 2007). This Standard has been revised and will change the structure of the financial statements. These changes will require that owner changes in equity are presented separately from non-owner changes in equity. Lotterywest does not expect any financial impact when the Standard is first applied on or after 1 January 2009.

AASB 2009-2 -This requires fair value measurement to be disclosed by the source of input, using the following three level hierarchy:

- Quoted prices in active markets for identical assets and liabilities (Level 1)
- Inputs other than quoted prices included in Level 1 that are observable for the asset or liability either direct (as prices) or indirectly (derived from prices) (Level 2)
- Inputs for the assets or liability that are not based on observable market data (unobservable inputs) (Level 3)
2. Summary of Significant Accounting Policies

(a) General Statement

The financial statements constitute a general purpose financial report which has been prepared in accordance with the Australian Accounting Standards, the Framework, Statements of Accounting Concepts and other authoritative pronouncements of the Australian Accounting Standards Board as applied by the Treasurer’s Instructions. Several of these are modified by the Treasurer’s Instructions to vary application, disclosure, format and wording.

The Financial Management Act and the Treasurer’s Instructions are legislative provisions governing the preparation of financial statements and take precedence over the Accounting Standards, the Framework, Statements of Accounting Concepts and other authoritative pronouncements of the Australian Accounting Standards Board.

Where modification is required and has a material or significant financial effect upon the reported results, details of that modification and the resulting financial effect are disclosed in the notes to the financial statements.

(b) Basis of Preparation

Lotterywest’s financial statements are been prepared on the accrual basis of accounting using the historical cost convention, modified by the revaluation of land and buildings which have been measured at fair value.

The accounting policies adopted in the preparation of the financial statements have been consistently applied throughout all periods unless otherwise stated.

(c) Income Recognition

Revenue is measured at the fair value of consideration received or receivable. Revenue is recognised for major business activities as follows:

Sales revenue
Revenue is recognised from the sale of tickets when the significant risks and rewards of ownership control transfer to the purchaser and can be measured reliably.

Sales revenue representing gross sales of all games of Lotto, Cash 3, Soccer Pools and Super 66, is recorded as at the date of the respective draw. Sales of instant lottery tickets are recognised when books of tickets are activated.

Grants, donations, gifts or other non reciprocal contributions
Revenue is recognised at fair value when Lotterywest obtains control over the assets comprising the contributions, usually when cash is received.

Other non reciprocal contributions that are not contributions by owners are recognised at their fair value. Contributions of services are only recognised when a fair value can be reliably determined and the services would be purchased if not donated.
Interest
Revenue is recognised as the interest accrues.

Gains
Gains may be realised or unrealised and are recognised on a net basis. These include gains arising on the disposal of non current assets and some revaluation of non current assets.

(d) Property, Plant and Equipment
Capitalisation/Expensing of assets
Items of property, plant and equipment and infrastructure costing $5,000 or more are recognised as assets and the cost of utilising assets is expensed (depreciated) over their useful lives. Items of property, plant and equipment and infrastructure costing less than $5,000 are immediately expensed direct to the Income Statement (other than where they form part of a group of similar items which are significant in total).

Lotterywest has changed the above assets capitalisation policy from 1 July 2008 (previously the assets capitalisation threshold was $1,000). Consequently and in compliance with TI 1101, all assets with a cost of less than $5,000 that were acquired and have been capitalised prior to 1 July 2008 were written down in the current year ‘Income Statement’ as opposed to adjusting the opening balance of the previous year ‘Retaining Earnings’ account as the amount is considered to be immaterial.

Initial recognition and measurement
All items of property, plant and equipment are initially recognised at cost.

For items of property, plant and equipment acquired at no cost or for nominal cost, the cost is their fair value at the date of acquisition.

Subsequent measurement
After recognition as an asset, Lotterywest uses the revaluation model for the measurement of land and buildings and the cost model for all other property, plant and equipment. Land and buildings are carried at their fair value less accumulated depreciation on buildings and accumulated impairment losses. All other items of property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment losses.

Where market evidence is available, the fair value of land and buildings is determined on the basis of current market buying values determined by reference to recent market transactions.

When buildings are revalued by reference to recent market transactions, the accumulated depreciation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount.

Where market evidence is not available, the fair value of land and buildings is determined on the basis of existing use. This normally applies where buildings are specialised or where land use is restricted. Fair value for existing use assets is determined by reference to the cost of replacing the remaining future economic benefits embodied in the asset, i.e. the
written-down current replacement cost. Where the fair value of buildings is dependent on using the depreciated replacement cost, the gross carrying amount and the accumulated depreciation are restated proportionately.

Independent valuations of land and buildings are provided annually by the Western Australian Land Information Authority (Valuation Services) and recognised with sufficient regularity to ensure the carrying amount does not differ materially from the assets fair value at the balance sheet date.

The most significant assumptions in estimating fair value are made in assessing whether to apply the existing use basis to assets and in determining estimated useful life. Professional judgement by the valuer is required where the evidence does not provide a clear distinction between market type assets and existing use assets.

**Derecognition**

Upon disposal or derecognition of an item of property, plant and equipment, any revaluation reserve relating to that asset is retained in the asset revaluation reserve.

**Depreciation of non current assets**

All non current assets having a limited useful life are systematically depreciated over their estimated useful lives in a manner which reflects the consumption of their future economic benefits.

Land is not depreciated. Depreciation on other assets is provided on the straight line basis, using rates which are reviewed annually. Estimated useful lives for each class of depreciable asset are:

- Buildings: 50 years
- Leasehold Improvements: 10 years
- Equipment and Fittings: 5 to 10 years
- Computer Equipment: 5 to 8 years

**(e) Intangibles**

All acquired and internally developed intangible assets are initially measured at cost. For assets acquired at no cost or for nominal cost, cost is their fair value at the date of acquisition.

The cost model is applied for subsequent measurement requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses.

Costs incurred of less than $5,000 are immediately expensed directly to the Income Statement.

Amortisation for intangible assets with finite useful lives is calculated for the period of the expected benefit (estimated useful life) on the straight line basis using rates which are reviewed annually. All intangible assets controlled by Lotterywest have a finite useful life and zero residual value. The expected useful life for computer software is 5 to 8 years.

**Licences**

Licences have a finite useful life and are carried at cost less accumulated amortisation and accumulated impairment losses.
Computer software
Software that is an integral part of the related hardware is treated as property, plant and equipment. Software that is not an integral part of the related hardware is treated as an intangible asset. Software costing less than $5,000 is expensed in the year of acquisition.

(f) Impairment of Assets

Property, plant and equipment and intangible assets are tested for any indication of impairment at each reporting date. Where there is an indication of impairment, the recoverable amount is estimated. Where the recoverable amount is less than the carrying amount, the asset is written down to the recoverable amount and an impairment loss is recognised.

As Lotterywest is a not-for-profit entity, the recoverable amount is the higher of an asset’s fair value less costs to sell and depreciated replacement costs.

The risk of impairment is generally limited to circumstances where an asset’s depreciation is materially understated or where the replacement cost is falling or where there is a significant change in useful life. Each relevant class of assets is reviewed annually to verify that the accumulated depreciation/amortisation reflects the level of consumption or expiration of the asset’s future economic benefits and to evaluate any impairment risk from falling replacement costs.

The carrying value of intangible assets is reviewed for impairment annually when the asset is not yet in use, or more frequently when an indicator of impairment arises during the reporting year indicating that the carrying value may not be recoverable.

(g) Work in Progress

Costs associated with assets under development for use by Lotterywest are recognised as work in progress. Once completed, the assets are transferred to the appropriate asset account and are depreciated or amortised, as appropriate.

No depreciation is provided during construction of assets or on holding costs of Community Projects that are subsequently transferred as a direct grant.

(h) Leases

Lotterywest has a number of government operating lease arrangements for motor vehicles, where the lessors retain effectively all of the risks and benefits incident to the ownership of the leased vehicles. Lotterywest also holds an operating lease for its business premises. Equal instalments of the lease payments are charged to the Income Statement over the lease term (i.e. on a straight line basis over the lease term), as this is representative of the pattern of benefits to be derived from the leased vehicles and business premises.

(i) Financial Instruments

In addition to cash and cash equivalents, Lotterywest has four categories of financial instrument:
• Loans and receivables;
• Held to maturity investments (commercial bills, floating notes);
Available for sale assets (floating note tied to an equity index); and
Financial liabilities (finance leases, prizes and other payables, and community grants).

Initial recognition and measurement is at fair value. Subsequent measurement is at either amortised cost using the effective interest method.

The fair value of short-term receivables and payables is the face value because there is no interest rate applicable and subsequent measurement is not required as the effect of discounting is not material.

(j) Cash and Cash Equivalents

For the purpose of the Cash Flow Statement, cash and cash equivalents includes restricted cash and cash equivalents. These include cash on hand and short-term deposits with original maturities of three months or less that are readily convertible to a known amount of cash and which are subject to insignificant risk of changes in value, and bank overdrafts.

(k) Inventories

Inventories are valued, on the first-in first-out basis, at the lower of cost and net realisable value.

Inventories not held for resale are valued at cost unless they are no longer required, in which case they are valued at net realisable value.

(l) Receivables

Receivables are recognized and carried at original invoice amount less an allowance for any uncollectible amounts. The collectability of receivables is reviewed on an ongoing basis and any receivables identified as uncollectible are written-off. The allowance for uncollectible amounts (doubtful debts) is raised when there is objective evidence that Lotterywest will not be able to collect its debts. The carrying amount of receivables is equivalent to fair value as it is due for settlement within 30 days.

(m) Investments and Other Financial Assets

Lotterywest classifies its investments into the following categories: loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date. Investments not at fair value are initially recognised at cost being the fair value of consideration given, including directly attributable transaction costs.

After initial recognition, investments classified as held for trading and available-for-sale, are measured at fair value. Gains or losses on investments held for trading are recognised in the income statement. Gains or losses on available-for-sale investments are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.
Non-derivative financial assets with fixed or determinable payments and fixed maturity dates are classified as held-to-maturity when management has a positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification.

Loans and receivables and held-to-maturity investments, such as commercial bills, are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity. For investments carried at amortised cost, gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

Lotterywest assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired.

(n) Payables

Payables, including amounts not yet billed, are recognised when Lotterywest becomes obliged to make future payments as a result of a purchase of assets or services at the amounts payable. Other than payables in respect of prizes and grants (see 2(o) and 2(p)), settlement generally occurs within 30 days, as a result the carrying amount is considered to be equivalent to fair value.

(o) Prizes

Division 1 prizes are paid two weeks after the date of the draw, subject to claim. The majority of other prizes are claimed and paid within a few days of the draw taking place.

Prize liabilities are recognised by draw for Lotto, Super 66, Cash 3 and Soccer Pools and activation of Instant lotteries by Retailers.

(p) Grants to Eligible Organisations

Grants are recognised when formally approved by the Minister. Unconditional grants are paid in full within days of the Minister’s approval. Conditional grants are paid as and when conditions are fulfilled.

If a grant is refunded but it is expected that it will be reissued, the amount is credited to the grant liability, otherwise the amount is written back.

When a grant is written back regardless of when it was approved, it is treated as a reduction of the current year’s grant expenditure.

(q) Provisions

Provisions are liabilities of uncertain timing and amount. Lotterywest only recognises a provision where there is a present legal or constructive obligation as a result of a past event and when the outflow of resources embodying economic benefits is probable and a reliable estimate can be made of the amount of the obligation.
Provisions are reviewed at each balance date and adjusted to reflect the current best estimate.

Provisions – Employee Benefits

Annual leave and long service leave
The liability for annual and long service expected to be settled within 12 months after the end of the balance sheet date is recognised and measured at the undiscounted amounts expected to be paid when the liabilities are settled. Long service leave expected to be settled more than 12 months after the end of the reporting date is measured at the present value of amounts expected to be paid when the liabilities are settled. Leave liabilities are in respect of services provided by employees up to the balance sheet date.

When assessing expected future payments, consideration is given to expected future wage and salary levels including non-salary components such as employer superannuation contributions. In addition, the long service leave liability also considers the experience of employee departures and periods of service.

The expected future payments are discounted to present value using market yields at the balance sheet date on national government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

All annual leave and unconditional long service leave provisions are classified as current liabilities as Lotterywest does not have an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Superannuation
The Government Employees Superannuation Board (GESB) administers the following superannuation schemes.

Employees may contribute to the Pension Scheme, a defined benefit pension scheme now closed to new members, or to the Gold State Superannuation Scheme (GSS), a defined benefit lump sum scheme also closed to new members. Employees commencing employment prior to 16 April 2007 who were not members of either the Pension or the GSS Schemes became non-contributory members of the West State Superannuation Scheme (WSS). Employees commencing employment on or after 16 April 2007 became members of the GESB Super Scheme (GESBS). Both of these schemes are accumulation schemes. Lotterywest makes concurrent contributions to GESB on behalf of employees in compliance with the Commonwealth Government’s Superannuation Guarantee (Administration) Act 1992. These contributions extinguish the liability for superannuation charges in respect of the WSS and GESBS Schemes.

The Pension Scheme and the pre-transfer benefit for employees who transferred to the GSS Scheme are defined benefit schemes. These benefits are wholly unfunded and the liabilities for future payments are provided for at balance sheet date. The liabilities under these schemes have been calculated separately for each scheme annually by the GESB’s actuaries using the projected unit credit method.

The expected future payments are discounted to present value using market yields at the balance sheet date on national government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.
The GSS Scheme, the WSS Scheme, and the GESBS Scheme, where the current service superannuation charge is paid by Lotterywest to the GESB, are defined contribution schemes. The liabilities for current service superannuation charges under the GSS Scheme, the WSS Scheme, and the GESBS Scheme are extinguished by the concurrent payment of employer contributions to the GESB.

The Gold State Superannuation Scheme is a defined benefit scheme for the purpose of employees and whole of government reporting. However, from Lotterywest's perspective, apart from the transfer benefits, it is a defined contribution plan under AASB 119.

Superannuation expense
The superannuation expense of the defined benefit plan is made up of the following elements:

- Current service cost;
- Interest cost (unwinding of the discount);
- Actuarial gains and losses; and
- Past service cost.

Actuarial gains and losses of the defined benefit plans are recognised immediately as income or expense in the income statement.

The superannuation expense of the defined contribution plans is recognised as and when the contributions fall due.

Provisions – Other

Employment on costs
Employment on-costs, including workers’ compensation insurance and payroll tax, are not employee benefits and are recognised separately as liabilities and expenses when the employment to which they relate has occurred. Employment on-costs are not included as part of Lotterywest’s ‘Employee benefits expense’ and the related liability is included in Employment on-costs provision.

(r) Accrued Salaries

Accrued salaries represent the amount due to staff but unpaid at the end of the financial year, as the end of the last pay period for that financial year does not coincide with the end of the financial year. Accrued salaries are settled within a few days of the end of the financial year. Lotterywest considers the carrying amount of the accrued salaries to be equivalent to the net fair value.

(s) Resources Received Free of Charge or for Nominal Value

Resources received free of charge or for nominal value which can be measured reliably, are recognised as revenues and as assets or expenses, as appropriate, at fair value.

(t) Goods and Services Tax and Grants from State Government

The Goods and Services Tax (GST) is not applied to the consumption of gambling services. It is however, applied to the operators’ margin defined as the subscription (wagering less
sales commission) less the amount of prizes. Accordingly the State Government provides reimbursement to gambling operators (including Lotterywest) for GST paid on the operators' margin. Lotterywest applies the reimbursement to maintain the level of community grants.

The GST paid on the operator's margin is disclosed as a cost of producing trading profit (see note 4). Treasurers’ Instruction 1102 also requires the reimbursement of the GST to be disclosed as a grant from the State Government rather than offset against the cost to which it applies.

(u) Foreign Currency Translation

Transactions denominated in a foreign currency are translated at the rates in existence at the dates of the transactions. Foreign currency receivables and payables at reporting date are translated at exchange rates current at reporting date. Exchange gains and losses (if any) are brought to account in determining the result for the year.

(v) Comparative Figures

Prior year comparatives have been reclassified, where necessary, to achieve consistency in disclosure and conform with presentation in the current financial period.

(w) Reporting Entity

The reporting entity is the Lotteries Commission.