



New South Wales Lotteries Corporation Pty Ltd  
ABN 27 410 374 474 | ACN 142 890 195

27 November, 2014

Dear Retailer,

I am taking the opportunity to contact you directly in response to a number of enquiries we have received from lottery agents seeking clarification concerning future distribution channels for the sale of lottery products in New South Wales.

As you would be aware in early 2010 after a comprehensive procurement process, the New South Wales Government announced Tatts Group as the successful bidder for NSW Lotteries for the acquisition price of \$850 million.

Since 1 April, 2010 NSW Lotteries has operated under a 40-year exclusive licence as part of Tatts Group. As a condition of the sale, all Agency Agreements were renewed for a five year period and are due to progressively expire from 1 April, 2015. It is NSW Lotteries' intention to implement a new Franchise Agreement for all retailers which will be compliant with the Franchising Code of Conduct (Code) and which is consistent with agreements in place for almost 2,000 lottery retailers in other Tatts Lotteries jurisdictions. For the last 18 months Tatts Group has been consulting with stakeholders including Newsagents Association of NSW and ACT (NANA) in good faith to finalise a new Franchise Agreement.

Whilst the majority of issues raised by NANA have been resolved, some remain outstanding including the distribution of lottery products, retail image requirements and the frequency of the weekly sweeps. It is in this context that NSW Lotteries provides the following information in order to ensure that the industry has understanding of the situation as it stands, and how we propose to proceed in the future.

### **Distribution of lottery products**

In terms of concerns about product distribution via supermarkets, Tatts Lotteries has been consistently open and transparent about the fact that a trial commenced in July 2013 selling lotto products in selected convenience fuel outlets in Victoria. The purpose of this trial is to thoroughly and carefully assess whether this new channel will provide an opportunity for Tatts Lotteries to capture incremental lottery sales. Results to date over an extended trial period of almost 18 months demonstrate this to be the case and accordingly the convenience fuel channel continues to be explored. However, we wish to reinforce that commentary by others that this trial indicates an intention to extend our retail reach to supermarkets, is an attempt to distort the reality and is not based on fact.

### **Retail Image**

A strong retail identity is an integral part of being a successful lottery franchise and this requirement exists under both the current Agency Agreement and the new Franchise Agreement. Accordingly, NSW Lotteries has designed the exciting and new Generation 1 retail image for implementation across its network. The NSW Lotteries retail image design will be dependent on the outlet's retail image category (which is sales based). In addition and as part of the planning process, the consideration of environmental factors will also be taken into account on a site by site basis. To provide certainty around the process for its retailers, as part of the new Franchise Agreement NSW Lotteries will not require retailers to install the Generation 1 retail image within the period of seven (7) years from completion of any previous upgrade. When the new Franchise Agreements are issued, retailers will be provided with the date their retail image upgrade will be due. The retail image program will commence on 1 July, 2015 with the first installations due for completion

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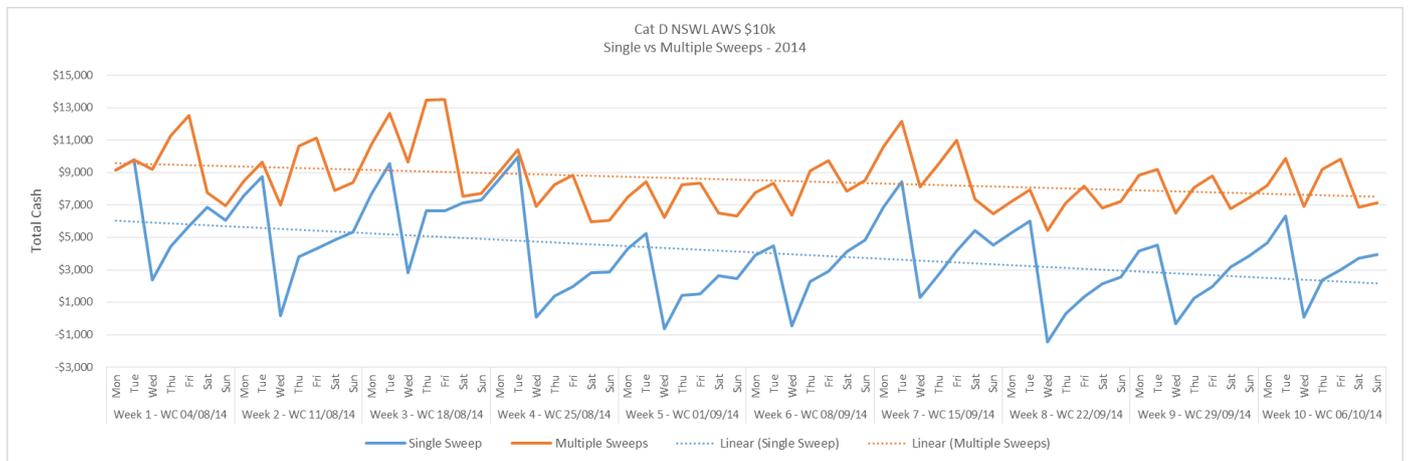
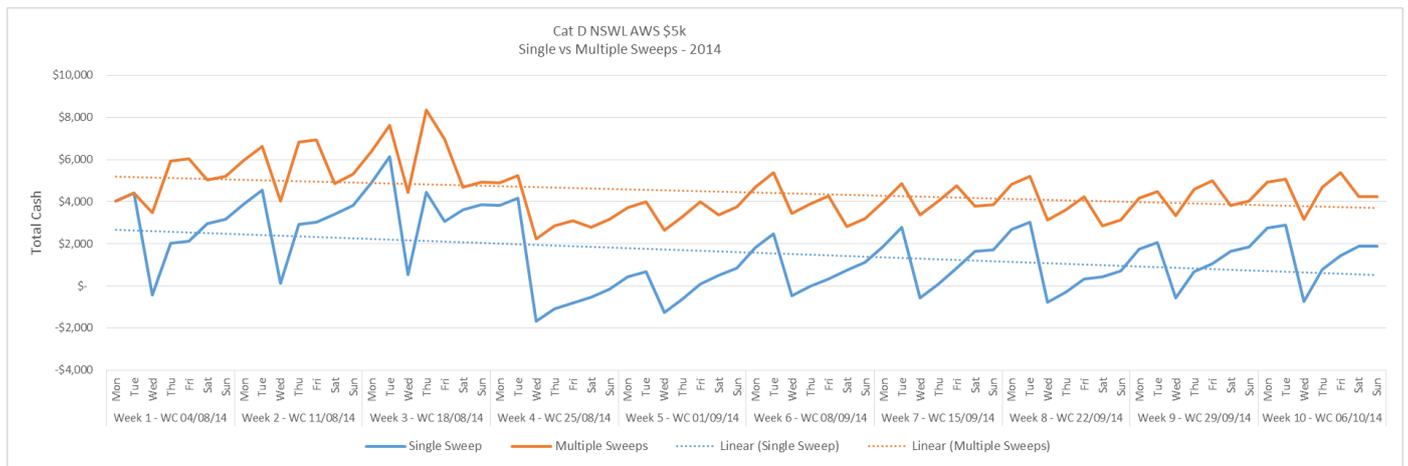
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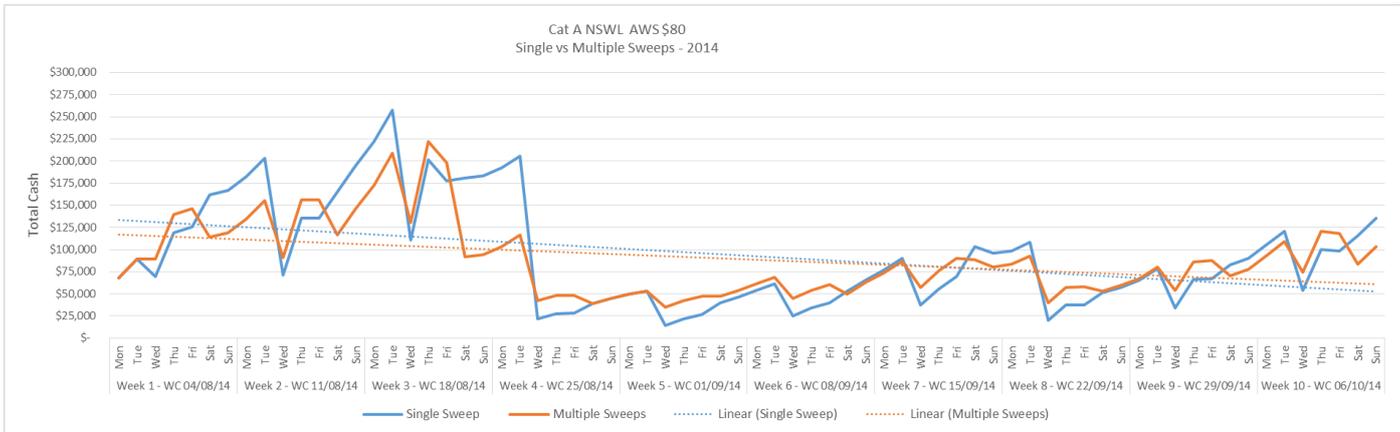
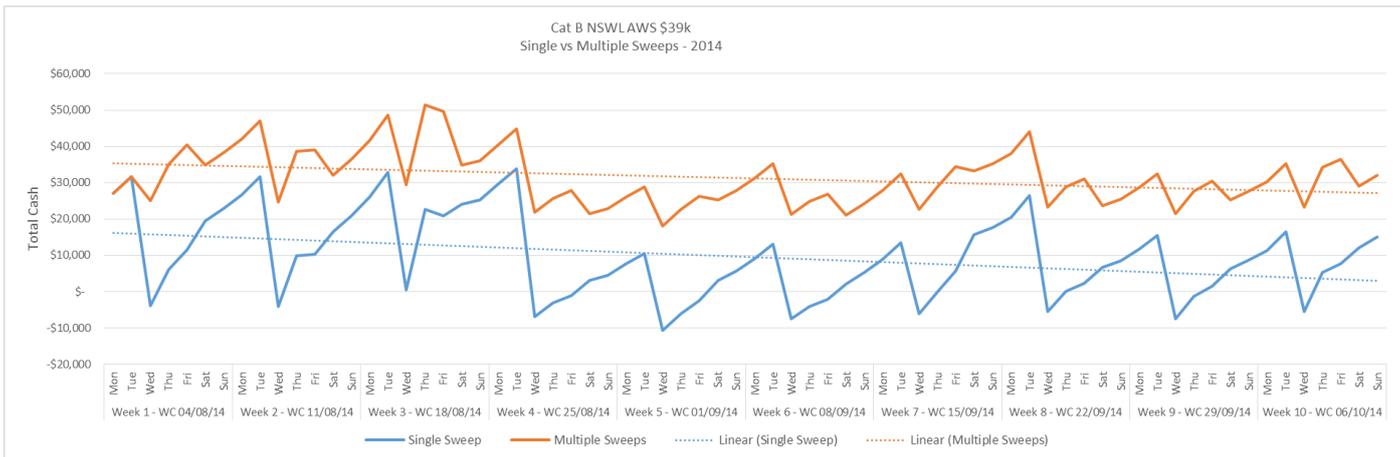
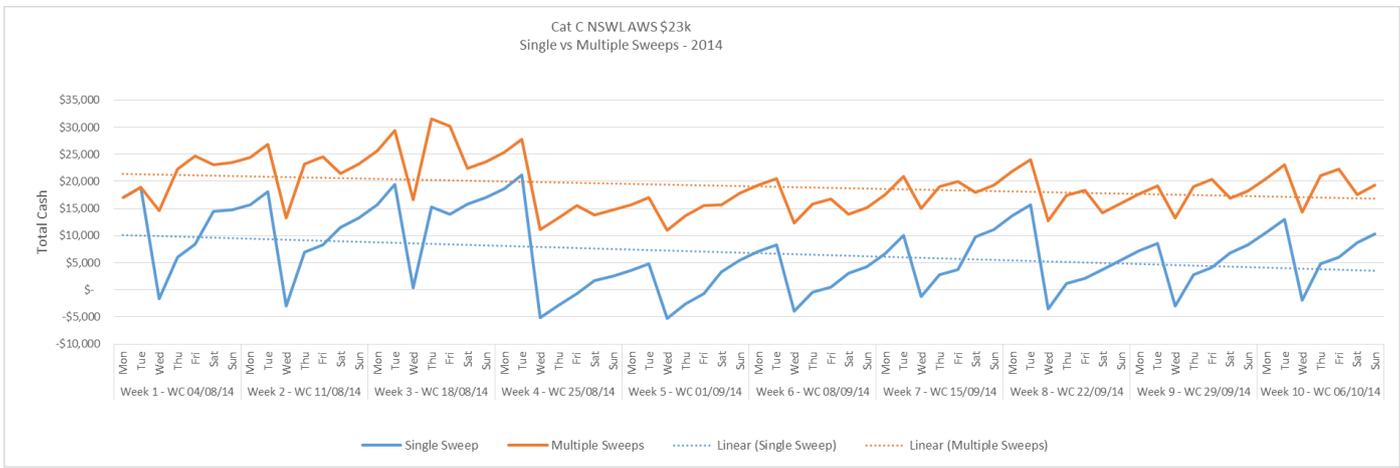
A Tatts Group Company

by 30 June, 2016. It is anticipated that the full completion of this roll out program will occur within a 6 year period.

### Multiple Weekly Sweeps

In conjunction with the introduction of the new Franchise Agreement, NSW Lotteries will introduce multiple weekly sweeps. It is important to note that the ability to sweep multiple times each week, exists under both the current Agency Agreement and the new Franchise Agreement. It is also important to note that the sweep process also includes the reimbursement to retailers of prizes paid during the sweep period. Sweeps are planned to occur on Tuesdays and Fridays of each week. Transactions for Monday through Wednesday will be swept on a Friday, with transactions from Thursday through Sunday swept the following Tuesday. There will be no changes to the current Monday to Sunday accounting week. NSW Lotteries has modelled this process and this modelling demonstrates that retailers are left in a more consistent and positive cash position on a daily basis as a result. NSW Lotteries has provided the results of this modelling to NANA (see graphs below).





## Conclusion

NSW Lotteries focus has always been on driving growth for our partners - be it our agents, the NSW Government or the NSW taxpayers who have and continue to directly benefit from around \$1 billion NSW Lotteries has provided back to the State in lotteries tax since 2010.

As a consumer focused retail business, it is imperative that our products are conveniently available to our customers. As such NSW Lotteries must continue to respond to our customer's needs, and it is in that context that we reiterate the value placed on newsagents facilitating this and that is why we are so committed to partnering with this retail channel going forward.

The new Franchise Agreement does not impose any additional material obligations on retailers than those that exist under the current agency agreement. Furthermore compliance with the Code ensures that franchisees are afforded benefits and protections, some of which are not currently afforded to lottery retailers in New South Wales under the present agency arrangements.

It is anticipated the new agreement will be in place from 1 July, 2015.

You will receive a separate letter providing further details relating to the new Franchise Agreement. NSW Lotteries thanks retailers for their ongoing support and is committed to continuing to work collaboratively with its extensive network of small businesses to achieve continued success into the future.

Regards

A handwritten signature in black ink, appearing to read 'Sue van der Merwe', written in a cursive style.

Sue van der Merwe  
**Chief Operating Officer Lotteries (Australia)**