



Annual Report 2005

Since 1987 NZ
Lotteries has
raised more than
\$2 billion
for the Lottery
Grants Board for
distribution within
the community

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The business of the New Zealand Lotteries Commission

Our purpose

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

Our goal

Our primary goal is to continue to generate improved earnings so that we are able to maximise the contribution we make to numerous New Zealand communities. At the same time, we endeavour to minimise the incidence of any problem gambling and under-age gambling associated with our products.

We will achieve this by creating winning outcomes for all our stakeholders – our customers; our shareholder, the Government; our retail network and other business partners; and our staff.

The New Zealand Lotteries Commission (NZ Lotteries) was established in 1987 and operates as a Crown Entity under the Gambling Act 2003.

One of the largest Crown-owned trading enterprises, NZ Lotteries employs approximately 110 staff based in Auckland, Wellington and, in the case of retail sales, in each region. NZ Lotteries retail network of more than 750 lottery outlets employs more than 3,600 people. It is the largest single retail network in New Zealand and we are seen as a leader in retail development, a position we aim to retain as we continue to expand and refurbish our retail network.

Lotto, our flagship game, has become a national icon. Alongside Lotto, NZ Lotteries other products are Lotto Powerball, Lotto Strike, Keno, and Instant Kiwi.

NZ Lotteries profits are transferred annually to the Lottery Grants Board which administers funding allocations to arts, cultural, sporting, and community groups. The transfers for the year to 30 June 2005 totalled \$123.4 million.

Most of the funding for Creative New Zealand and the New Zealand Film Commission comes from NZ Lotteries profits via the Lottery Grants Board. We are also a major supplier of funding to Sport and Recreation New Zealand. The remainder of the Lottery Grants Board's funding supports around 3,400 community organisations and projects each year.

The activities of New Zealand's artists, filmmakers, and high-achieving sportspeople provide

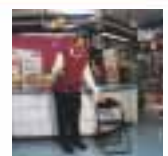
inspiration for us all, and community organisations strengthen the fabric of our society. Together, they play a vital role in creating a positive sense of identity for New Zealand and New Zealanders.

NZ Lotteries is New Zealand's only gaming provider with a pure community-benefit funding model. NZ Lotteries has a well established history and presence in New Zealand society.

We are seen as a source of large-scale community funding whose games are regarded as 'fun' or 'a harmless flutter' rather than gambling. As an organisation we are subject to stringent government reporting and monitoring requirements.

One of NZ Lotteries statutory functions under the Gambling Act is to maximise profits. However, this is subject to ensuring that the risks of problem gambling and under-age gambling associated with our products are minimised. NZ Lotteries and its retail network strive to conduct all aspects of the lotteries business in a professional and responsible manner. All efforts are made to provide a safe, friendly, and responsible play environment that adheres to legislative and regulatory requirements.

The integrity of our products, transparency of our systems, and our commitment to growing our business without adverse social outcomes are the cornerstones of our business practices.



Winning players



After a heart-stopping moment when she almost burnt the winning ticket, Michaela Riley, a law clerk from Invercargill, won \$300,000 on Winning Wheel in April. Michaela had put her ticket in the fireplace after unsuccessfully checking it for Lotto divisional prizes.

Fortunately for her, the weather was mild and she didn't light the fire before her mother suggested she take the ticket to Invercargill's Windsor Take Note Lotto retailer to get it checked. After her win, Michaela was rapturous about the win and the whole Winning Wheel experience, saying the NZ Lotteries team had made the trip and experience "perfect".

Highlights



During the year, profits earned and transferred to the Lottery Grants Board for distribution to New Zealand arts, cultural and sporting organisations since NZ Lotteries started in 1987 exceeded the \$2 billion mark.

The momentous \$2 billion milestone was reached on 24 December 2004, with a \$25 million transfer to the Lottery Grants Board. In total, NZ Lotteries has transferred \$2,074,006,583 to the Lottery Grants Board since we started in 1987.

In the 2004/2005 year we transferred \$123.4 million to the Lottery Grants Board to fund sports, cultural, arts, and community organisations and initiatives throughout New Zealand. This was \$4.9 million more than the previous year.

Our business turnaround continued with sales for the year reaching \$630.4 million, slightly ahead of last year when Powerball jackpots added \$50 million to Lotto family sales. Sales of \$324.4 million for the second half of the financial year were the best in our 18-year history.

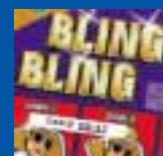
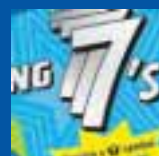


Significant changes were made to Lotto in August 2004 that revitalised the game, boosting weekly sales by an average of 10% compared with last year. As part of these changes the Winning Wheel draw was introduced on Saturday's live Lotto draw. The Winning Wheel has greatly increased the visibility of winners, reinforcing players' belief in the winnability of, and enjoyment provided by, NZ Lotteries games.

During the year we paid a total of \$342.1 million in prizes to winners throughout New Zealand. We made 34 people millionaires and nine multi-millionaires. In our Triple Dip promotions 126 people won a huge array of prizes and 48 players won on Winning Wheel.

Instant Kiwi sales increased 11.7% over the previous financial year, making 2005 the best year for Instant Kiwi since the financial year to 30 June 2000. The growth was driven by a bigger product range, a greater range of price points, and increased advertising, particularly on television.

We increased the number of retail outlets from 639 to 756 by year end, providing greater choice and convenience for our customers. We installed a new, more flexible and modern retail format in one-third of all stores.



The Board of the Commission

The Commission members act as NZ Lotteries board of directors and are appointed by the Government. The Commission is responsible for NZ Lotteries policy setting and strategic direction. It has two committees: the Audit and Risk Committee and the Remuneration Committee. A Commissioner also chairs NZ Lotteries Superannuation Scheme Committee.

Day-to-day business operations are the responsibility of the Chief Executive and other members of the management team.



**John Goulter DCNZM, FINSTD, FINSTM, JP
Presiding Member**

John Goulter, former managing director of Auckland International Airport Limited, is a director of the Reserve Bank of New Zealand, Television New Zealand, Vector Limited, and United Carriers Group Limited. He is also an external adviser to ABN AMRO New Zealand Limited and a trustee and board member of the New Zealand Business and Parliament Trust. He was the Deloitte Management Top 200 Executive of the year and NBR New Zealander of the Year for 2002. He was inducted as a laureate into the New Zealand Business Hall of Fame in 2003.



**Paddy Austin PhD (Linguistics)
Deputy Presiding Member**

Dr Austin joined the Board as Deputy Presiding Member in June 2005. She is currently Chair of Christchurch City Holdings Ltd, the holding company for the city's trading assets, and is a member of the Council of the University of Canterbury, a member of the Arts Council of Creative New Zealand, and a director of Canterprise Ltd. A former Christchurch City Councillor, Dr Austin is Chair of the Canterbury Museum Trust Board, and is a trustee for the Art & Industry Trust and the Christchurch International Jazz Festival Trust. She is a former Vice-President of the Canterbury Employers' Chamber of Commerce, and director of the Canterbury Development Corporation.



**Sally Jo Cunningham PhD
(Computer Science)**

Dr Cunningham joined the Board in January 2004. She is a Senior Lecturer at Waikato University's Computer Science Department and a Research Fellow at the University of Illinois at Urbana-Champaign. She has served as a national councillor for the New Zealand Computer Society, and is a Fellow of the NZCS. She has published more than 90 IT research papers, and presents regularly at international research conferences.



Guy Herbert LLB (Hons), Dip TP

Guy joined the Board in November 2003 and has a professional background in law, specialising in resource management, local government, and commercial development. He is the proprietor of hotels in Canterbury and the West Coast. He is also a director of the Kiwi Education Group specialising in the recruitment and teaching of international students, and has served on a number of community organisations.



Kay McKelvie LLB, MBA

Kay joined the Board in November 2000 and is Chair of the Commission's audit and risk committee. Kay is also Chair of District Health Boards NZ, Waitemata District Health Board, and Quotable Value. She is also a Director of Word Pictures Ltd, a private media production company, and was previously Chair of Finance at Auckland City Council and Professional Standards Director of the Auckland District Law Society.



Highlights from North to South



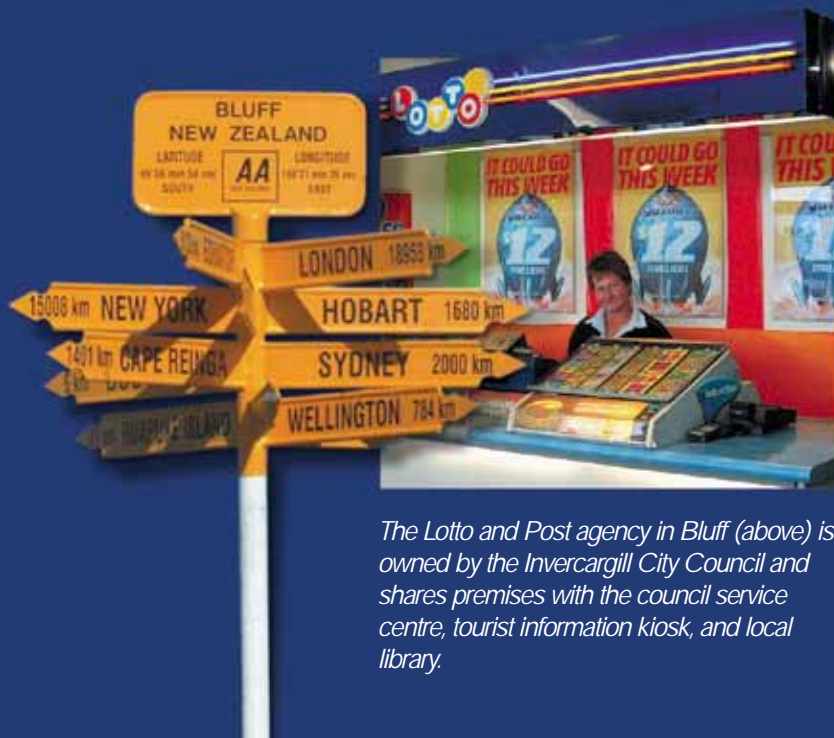
Opening extra stores, and having stores in the right locations, has made buying our products more convenient for players, particularly in many rural and provincial areas. Hawera New World supermarket co-owner Samantha Kovaleski (right), with Lotto operator Pania Mills (left) and NZ Lotteries Retail Development Manager Megan Ching (centre), says the Lotto kiosk installed when she refurbished her supermarket has proved popular with Hawera shoppers.



Brian and Judith Campbell bought the Dargaville Post Shop and Lotto business in January and had sold five Lotto Second Division winners within their first six months. From the left, co-owner Judith Campbell, Lotto operators Tamara Le Noel, Marilyn Matakohi, co-owner Brian Campbell, and Sandra Snooks.



Ben and Wendy Croft (above) were married in December in Hanmer Springs. On the way to the reception after their wedding ceremony they decided that they had better get their regular Saturday Lotto ticket, so popped in to Hanmer Springs Four Square.



The Lotto and Post agency in Bluff (above) is owned by the Invercargill City Council and shares premises with the council service centre, tourist information kiosk, and local library.



Reg and Ngaira Darke (below) went in to Hibiscus Stationers in Orewa to buy each other a gift of a Triple Dip ticket for Christmas. When they sat down with their family to watch the Christmas draw they were very excited to see that a ticket sold in Orewa had won one of the promotional prizes, a Sony Entertainment system. Reg checked his numbers and realised he hadn't won the prize so went to make a cup of tea. When he came back, Ngaira told him that another lucky ticket had been sold in Orewa – and to their delight they realised it was his ticket. They had won an Audi A4 Cabriolet car.

Just two months later, Hibiscus Stationers sold a winning Triple Dip promotion ticket that saw another of their customers drive away in one of ten Holden Cruze cars each filled with \$50,000 cash.



Julie Bateman's (above) Greytown Lotto and Post Shop had an amazing run of luck, selling two \$10,000 prize-winning Instant Kiwi tickets in just one week in May.



Presiding Member and Chief Executive's Report

Introduction and overview

The turnaround in the New Zealand Lotteries Commission's business performance continued during the 2004/2005 financial year with overall sales of \$630.4 million for the 12 months. Sales of \$324.4 million for the second half of the financial year were the best in NZ Lotteries 18-year history.

This was an impressive result, especially when you consider the smaller number of Powerball jackpots compared with the statistically abnormal number of high Powerball jackpots in the previous financial year.

The excellent sales result allowed us to transfer \$123.4 million to the Lottery Grants Board. This was \$4.9 million more than last year's transfer.

The improved performance can be attributed to a number of factors, including the successful changes made to Lotto in August 2004, and the high-profile Lotto Triple Dip promotions that continue to prove popular with customers. Instant Kiwi has also performed very strongly on the back of an increased number of games available at any one time, a greater in-store presence, and more marketing support.

Opening new outlets helped lift sales performance by significantly increasing the size of our retail footprint, making it easier for players to locate an outlet when they wish to buy our products. At the same time, a nationwide refurbishment programme of lottery outlets was begun, and by year end one-third of the network featured the new retail branding and format.

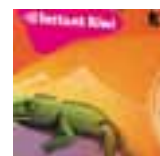
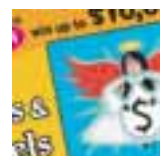
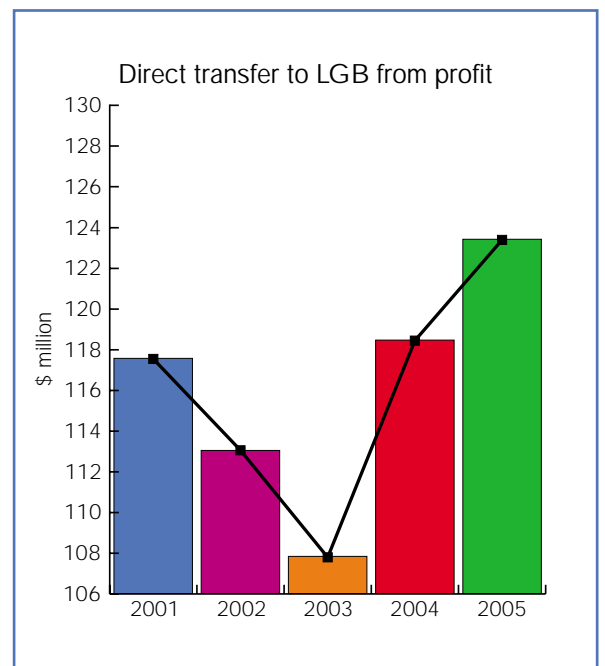
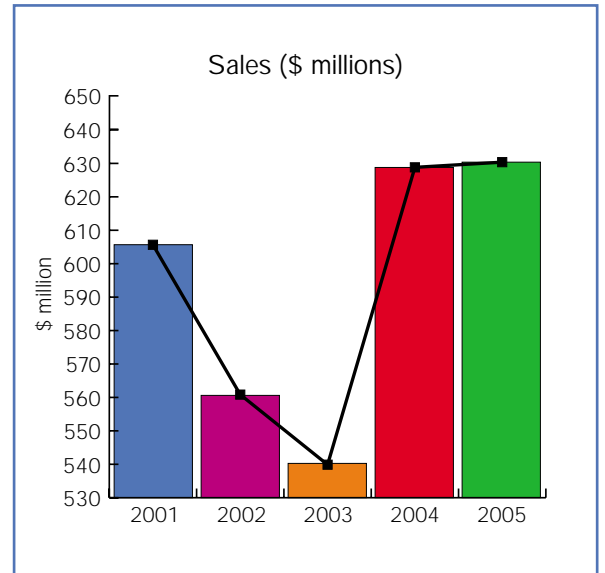
Net profit for the year was \$130.4 million, slightly behind last year, reflecting a greater investment in marketing, infrastructure, and associated staffing.

The prize reserve fund, which is used to enhance prizes for players, remains in a healthy state with the balance standing at \$10.9 million at year end.

Sales performance

Overall sales for the 12 months were \$630.4 million, 0.3% ahead of the last financial year: a commendable result, particularly when Powerball's volatility is taken into account.

Sales for the second half of the financial year reached \$324.4 million, the best in our history and 13.3% ahead of sales for the second half of the 2003/2004 financial year. The first half of the financial year was a more challenging period for sales with Powerball being won six times in the six-month period. A very strong sales performance in December helped us to achieve sales and earnings budgets for the first six months, although total sales for the first half were 10.7% behind the same period last year.



NZ Lotteries has signed a contract with GTECH Global Services Corporation to provide and support a replacement centralised gaming system and lottery terminals in all our retail outlets. The contract was signed in August 2005 by (from left to right): Brian Sheehan, GTECH Director, Asia Pacific Operations; Timothy Nyman, GTECH Senior Vice President, Global Services; John Goulter, NZ Lotteries Chairman; and Trevor Hall, NZ Lotteries Chief Executive.



GTECH President and CEO
W. Bruce Turner



The changes made to Lotto in August 2004, including reverting to a shared First Division prize pool, better prizes for other divisions, increasing the price from 50 cents to 60 cents a line, and introducing the Winning Wheel on the live Saturday Lotto draw, were well received by customers and retailers. Weekly sales for Lotto have lifted by an average of 10% since the changes.

With fewer big jackpots on offer, sales of Powerball were well down on last year. Lotto sales increased slightly and Lotto Strike performed well because of the influence of successful Triple Dip promotions. Overall, total sales of the Lotto family of products were 2.1% below last year.

A new television advertising campaign, with the memorable tagline "How Great Would It Feel?" and a focus on the winning moment, has proved popular, and Instant Kiwi television advertising has also supported the brand better than in the past.

Instant Kiwi's sales performance improved, with sales 11.7% ahead of last year. Factors contributing to this good result include the introduction of extra ticket streams – there are now 12 different tickets available at any one time – a heightened in-store presence, higher average ticket prices at \$2.26 compared with \$1.95 the previous year, and stronger marketing support.

Keno sales stabilised in the year under review after increasing by about 20% when Keno went from once to twice daily in May 2004. In the fourth quarter, Keno's first-ever sales promotion, linked to sponsorship of the Warriors National Rugby League (NRL) team, boosted sales by 8% compared with non-promotion weeks.

A total of \$342.1 million in prizes became payable to winners throughout New Zealand. The Lotto family of games made 34 people millionaires; nine multi-millionaires; 48 people each won an average of \$182,898 on Winning Wheel; and 126 people won other promotional prizes ranging from cars, boats and boat cruises to cash and a \$500,000 holiday home. Nine people became multi-millionaires after winning Lotto Powerball.



Kathy Laugesen from Whakatane, the first winner to win the \$1 million prize on Lotto's Winning Wheel.

Information technology

Our single most important project is to replace our centralised gaming system and the lottery terminals in our more than 750 outlets. Both the system and lottery terminals will be supplied and supported by GTECH Global Services Corporation, a wholly-owned subsidiary of GTECH Holdings Corporation, a leading gaming technology and services company based in the United States.

The new system is due to go live in mid-2006. GTECH, which has also supplied and supported our existing gaming system and lottery terminals, was chosen after a rigorous procurement process. GTECH will provide new terminals, ongoing software support, and terminal maintenance over the next nine years. Associated with this project is the upgrading of the telecommunications data links between NZ Lotteries and retailers to the Internet Protocol (IP) standard. Telecom New Zealand was selected as the preferred bidder for this project.

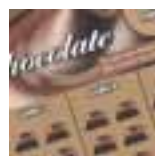
The implementation process has now begun with a decision being made to relocate NZ Lotteries IT operations from Wellington to Auckland. A building has been purchased in Auckland and work has started on renovating it in order to house the new centralised gaming system.

Along with the new terminals and new gaming system, we are also installing a management information system using technology from specialist German company SAP, one of the world's leading providers of business software solutions. The new system will provide us with improved levels of business information and facilitate the more efficient distribution of merchandising material to our retail stores.

We operate in an entertainment market where customers expect innovative and novel products, and rapidly-changing product ranges. Customers also want to access many of these products through a variety of electronic mediums, including mobile phones, the Internet, and interactive television. The Gambling Act 2003 gives NZ Lotteries the legal ability to offer interactive products, and the new centralised gaming system will provide us with the technical capability to offer games interactively. Any interactive gaming activity will only be introduced after consultation with our regulators and will contain the safeguards necessary to prevent irresponsible or under-age play.

It is not our expectation that games will be offered interactively at the time the new system is switched on, or soon after. Based on international experience we believe interactive products can be offered safely within the bounds of the Gambling Act, but only with a great deal of preparation, and consultation with interested parties.

The experience of overseas lotteries also indicates that our retail distribution channel will remain the dominant sales channel for the foreseeable future, with interactively offered products appealing to more of a niche market than our traditional customers.



A building has been purchased in Auckland to house the new centralised gaming system and refit work is under way.



Expanding and modernising our retail network

Our strategy to expand our retail network to better reflect overseas practice gained momentum during the year. There were 134 new retail outlets opened during the year, bringing the total number of retail outlets selling NZ Lotteries products to 756 at year end. Customers now have greater choice about where to purchase tickets. Having extra stores has also made buying our products more convenient for players, particularly in many rural and provincial areas where we had been sparsely represented.

Along with opening new stores, we developed and began rolling out a new retail format nationally. The new format is smaller than its predecessor and offers retailers a way of more effectively integrating the selling of NZ Lotteries products with their core business. The design of the new-look stores is fresh and modern, bringing our outlets up-to-date with retail trends. It also features an improved Instant Kiwi format, which has helped increase Instant Kiwi sales.

Our strong financial performance during the year under review allowed us to increase the level of support given to retailers in financing their upgrade to the new retail format. We are pleased to be able to offer this assistance, which has been well received by retailers in our network of stores. We are confident most of the network will be refurbished within the next two years. To this end we have committed extra staff and resources to work with retailers.

Sustaining the momentum

NZ Lotteries performance in the financial year under review, when trading conditions were more typical compared with the abnormal Powerball jackpots of the previous year, can be attributed to a number of strategy-driven changes. These include the decision to increase the number of retail outlets, to modernise our retail format and adopt a new corporate identity, to revitalise Lotto and Instant Kiwi, and to improve our marketing and public relations programmes.

Diversifying our product portfolio, and offering more games on days of the week other than Saturday, are critical to the ongoing success of our business. We have been indicating for some time that we would be introducing a new mid-week game. The relatively small size of the New Zealand market has made this a challenging process.

A project team started working on the new game as soon as the changes to Lotto introduced last year were complete. The new game, based on offering players the 'ultimate lifestyle', will have a jackpotting element and an interesting mix of prizes on offer. The mid-week timing of the new game

should bring players in to our retail outlets more frequently, and the prizes and structure of the game are expected to appeal to a broad range of players, some of whom may not currently buy our products, and others who are lapsed players. The new game is scheduled for launch in the first half of the new financial year.

Responsible gaming

With most of the provisions of the Gambling Act 2003 coming into effect in July 2004, we operated within the new environment created by the Act for the first time during the year under review.

For most people, playing lottery games is fun and rewarding entertainment, and it is our intention for this to remain the case. We take our responsibilities to minimise or prevent harm very seriously. NZ Lotteries games make up a very small proportion of problem gambling statistics. Provisional gambling statistics for the 2004 calendar year show that at most 0.5%, or 13, of the 2,236 gamblers who received face-to-face counselling for the first time cited our games as their primary mode of gambling,¹ 0.2% lower than for the previous year.

The Gambling Act requires NZ Lotteries to maximise profits subject to ensuring that the risks of problem gambling and under-age gambling are minimised.

As required under the Act, we effectively implemented an increase in the age restriction for Instant Kiwi from 16 to 18 from July 1 2004 through an education process with retailers and customers.

We have introduced a Responsible Play Code of Practice, and 'Have Fun and Play Responsibly' brochure, which were updated when the changes were made to Lotto in August 2004. We are also about to introduce a 'Have Fun and Play Responsibly' mark that will appear on our tickets to underline the responsible gaming message.



NZ Lotteries has been active in working with officials from the Department of Internal Affairs and Ministry of Health and other stakeholders on responsible gaming issues; it was the major sponsor of an international think tank and conference on gambling in Auckland in May 2005; and became a member of the Ministry of Health's Interim Data Advisory Committee dealing with gambling issues.

¹ Problem Gambling Purchasing Agency. *Problem Gambling Counselling in New Zealand 2004, National Statistics*. Palmerston North. Provisional Statistics as at 13 May 2005. Gambling Helpline statistics are still to be published and a combined total calculated. In 2003 Gambling Helpline statistics showed 0.3% of clients presenting for counselling for the first time cited NZ Lotteries products as their primary mode of gambling.



John Goulter DCNZM,
FINSTD, FINSTM, JP
Presiding Member



Trevor Hall
Chief Executive

Community benefits

In December, NZ Lotteries reached the \$2 billion mark in lottery profits transferred to the Lottery Grants Board for distribution to New Zealand arts, cultural, sporting, and community organisations via the Lottery Grants Board since the lottery started in 1987.

Funding generated by NZ Lotteries supports a huge variety of arts, cultural, sporting, and community groups funded by the Lottery Grants Board and the other statutory agencies that receive our profits: Creative New Zealand, Sport and Recreation New Zealand, and the Film Commission, all working to make New Zealand a more vital and vibrant place, with stronger communities.

We want to ensure that our players, retailers, and other New Zealanders recognise the benefits that playing NZ Lotteries games brings to the broader community. In early 2005 we signed a Memorandum of Understanding with the Lottery Grants Board that sets out how we will more closely link our branding and undertake other initiatives to raise awareness of the linkage between NZ Lotteries and the community benefits that are derived from the distribution of our profits.

Moving forward

Looking ahead, it is difficult to predict consumer spending patterns for the coming 12 months, but there are early indications that there may be a softening in the retail market after a period of extremely buoyant trading conditions. If this occurs, it is likely to have an impact on the sale of our products.

We intend to further enhance the results achieved to date in the coming year, through a range of initiatives such as more promotions for our Lotto family of games, launching the new mid-week game, continuing to strengthen the marketing, sales and public relations support for our games, opening more stores, and renewing our business 'backbone' with the replacement of our gaming system, terminals, and telecommunications data links.

It is important to take this opportunity to thank everyone who has contributed to the tremendous result we have achieved over the past 12 months. NZ Lotteries retailers and staff have made a huge commitment to making the business strategy a success, and their commendable efforts over the past year are very much appreciated.



Dinsdale Stationery in Hamilton was one of the first retail stores to refurbish with the new look. Owner Colin Fitzwater and his team have also upgraded other furnishings in the store, and used space freed up by the refurbishment to stock more gifts, cards, and stationery.



John Goulter DCNZM,
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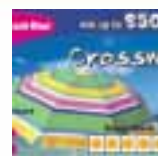
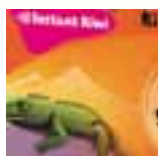
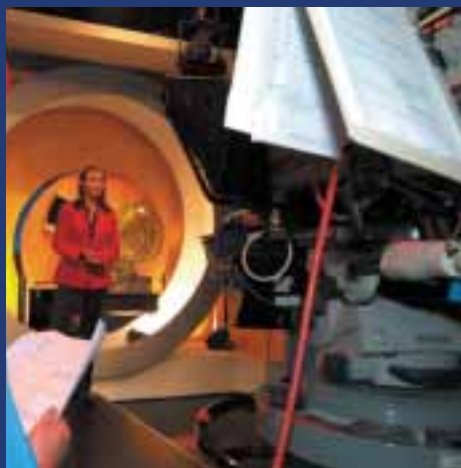


Highlights made for television

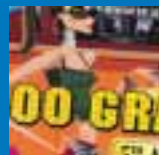
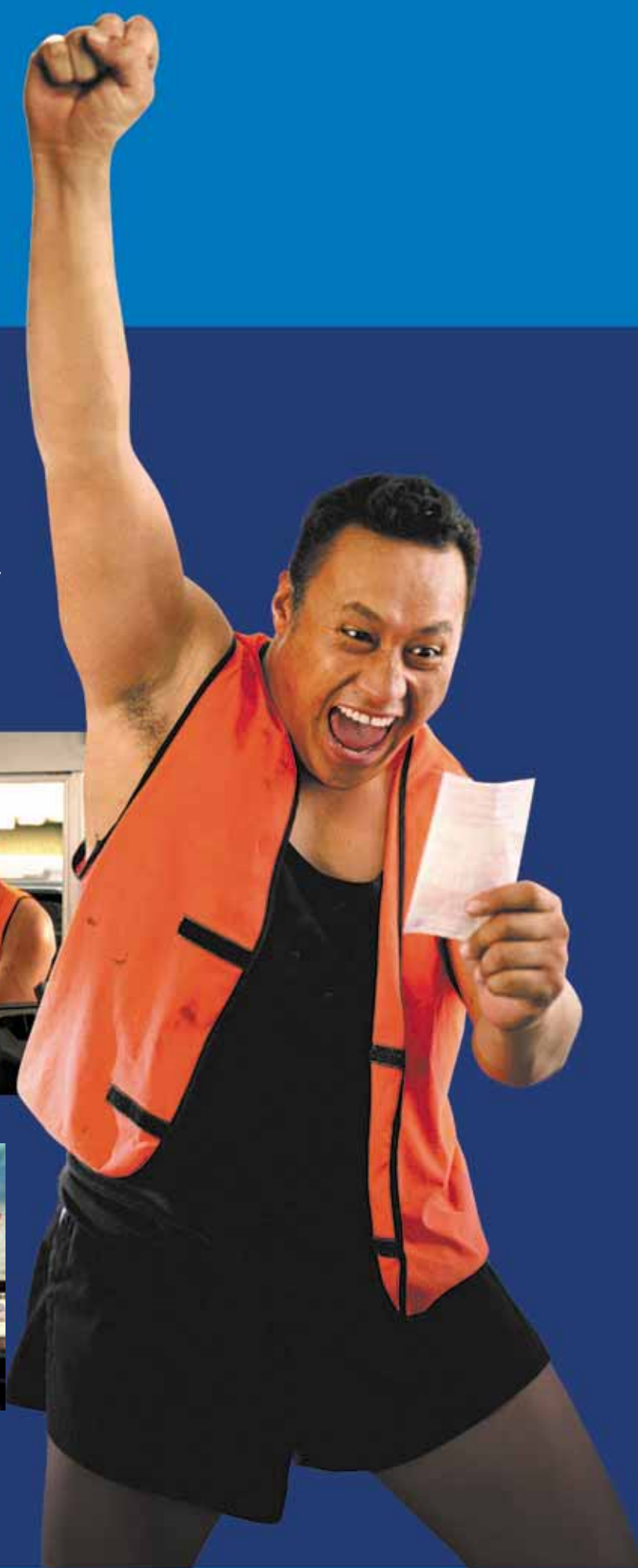


Our television advertisements focus on capturing the joy and excitement players feel when they win, featuring characters such as the Bowling Betties, Ian, who gets Colin to open his shop late at night so he can check the ticket, and the big winner who mows his lawn while the size of his win slowly sinks in. These advertisements have been very well received by our customers.

When the simplified and strengthened Lotto game was launched in August 2004, we also introduced a new set at the Avalon TV studios in Lower Hutt. The new set brings together the draw machines for Lotto and Powerball along with Lotto's Winning Wheel and staging for luxury car prizes. The Lotto draw is broadcast live at 8pm every Saturday from the Avalon studio.



Our call-to-action advertisements remind people to buy their tickets, continuing the theme of capturing the 'winning moment'. The Lotto outlet at Torbay Video Ezy featured as the backdrop in a purchase reminder advertisement featuring a group of friends who drop off their videos and check their Lotto tickets to discover that they've won a big prize. Another advertisement features a typical Kiwi bloke in a timber yard telling his friends about how cool and calm he was when he won a big prize, while the film shows us how excited he really was in the Lotto shop.



Winning players

Lotto's Winning Wheel

NZ Lotteries staff and retailers know how wonderful it is when people win, and the desire to let everyone share some 'winning moments', as well as giving Lotto players another chance to win, and adding excitement to the Saturday live Lotto draw, resulted in the introduction of Lotto's Winning Wheel in August 2004.

All Lotto players are automatically entered into the draw to win the opportunity to spin the Winning Wheel, regardless of the type of ticket they buy.

Every week a winner has gone on to the Saturday draw and spun the wheel to win one of thirty prizes. With a top prize of \$1 million, and average prize value of \$220,000, there have been some magic moments on the wheel.

They started with Peter McCabe from Tahuna, near Morrinsville who was "ecstatic" to win \$250,000 on Winning Wheel's very first live spin. The McCabes, now happily settled in a new dream property, described going on the draw as "an amazing experience that we will treasure for the rest of our lives".

Self-employed Hastings man Garry Kirk won a \$500,000 house and land package when he spun the Winning Wheel in February. Mr Kirk said the Winning Wheel experience had changed his and his partner's lives for the better.

"You cannot imagine just how lucky I feel to have had this opportunity. I will be forever grateful to Lotto," Garry said after the win.

"This is like a dream and still brings tears to my eyes when I watch the video (of the draw), or friends and colleagues discuss what has happened."

Supercar zooms off to Christchurch

In one of those 'life is stranger than fiction' moments, Skellerup employee Sandy Foster, from Christchurch, won a beautiful Aston Martin DB9 car (right) when he spun the Winning Wheel in May. Just two months previously, Skellerup workmates Christine Kearns and her partner Kelynn Broadbent had won a \$3.7 million Lotto Powerball jackpot. Sandy described appearing on Winning Wheel as a "once in a lifetime experience" and driving the car to Auckland before selling it as "marvellous". The car dealer made sure Sandy won't forget the car — he gave him a copy of the ownership papers, a hat, and a model of the car.



Auckland builder Christopher Hurley was amazed when he spun Lotto's Winning Wheel in June to see it stop between two prizes: \$175,000 cash or a Bentley Continental GT car. He chose the luxury car as his prize.

'Gut Instinct' and dream lead Instant Kiwi winner to two big prizes

One incredibly lucky Dunedin Instant Kiwi player, driven by 'gut instinct' and what he dreamt, won \$50,000 on a \$3 Crossword ticket in November and \$100,000 in January on a \$5 Double Crossword.

The player said that in late November he was walking past a lottery outlet and bought the \$3 ticket on an urge. He won \$50,000 on the spot. Not long after that, he had a dream that a family member won \$100,000 on Instant Kiwi. Fired up, he cashed in another winning Crossword ticket for \$5, bought a \$5 Double Crossword and won \$100,000.

Kaitaia Keno player's win matches record

A Keno player, who only started playing the game two months before their win, cried with delight in February when they found out they had won \$500,000 with a \$2 ticket sold in Kaitaia. The lucky player said that when they read about the big win it never occurred to them that they might be the winner.

"When I read about it in the local paper, I thought 'you lucky thing'. It never occurred to me that I might be the winner."

Kayne Tatnell, Lotto Manager at Pak 'n' Save Kaitaia where the winning ticket was sold, said she was delighted for the unsuspecting winner.

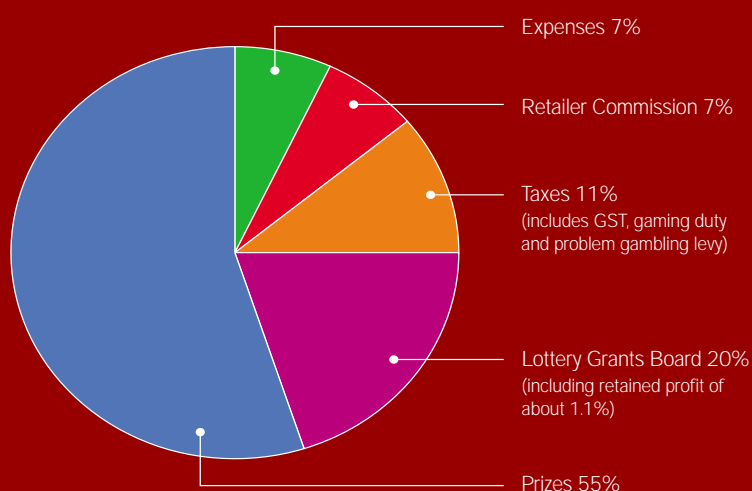
"When I saw what the prize was, I said 'can you please come with me?'. The winner said 'what have I done?', so I leaned over the counter and whispered 'you've won half a million dollars'. At that point I burst into tears as well — we were both in an absolute state of disbelief."



Winning outcomes

How is lottery money spent?

For every \$1 from combined sales:



Based on results for the year ended 30 June 2005

Transfers to the Lottery Grants Board

All of NZ Lotteries profits are transferred to the New Zealand Lottery Grants Board for distribution, with NZ Lotteries being the Board's sole funder. Our profits are a major source of funding for sport and recreation, arts and culture, and community services. The Lottery Grants Board moved to a new structure on 1 July 2004. Along with five specialist committees, the Lottery Grants Board now has 13 other distribution committees comprising a National Community Committee, an Outdoor Safety Committee, and 11 Regional Community Committees.

NZ Lotteries has firmly established itself as a strong and reliable source of funding for organisations working towards improving New Zealand's arts and cultural sectors and communities. The impact of the revenue raised by NZ Lotteries for the Lottery Grants Board and its agencies can be seen from the Board's allocations for the 2005/2006 year.

Allocations by the Lottery Grants Board 2005/2006

Total available for allocation 2005 – 2006 \$110.12 million

Allocated to:

Regional Community Committees	(\$ million)
Northland	\$0.97
Auckland	\$4.74
Waikato	\$1.86
Bay of Plenty/Gisborne	\$1.60
Hawkes Bay	\$0.83
Taranaki	\$0.57
Manawatu/Whanganui	\$1.07
Wellington/Wairarapa	\$1.78
West Coast/Nelson/Marlborough	\$1.04
Canterbury/Kaikoura	\$2.04
Otago/Southland	\$1.31
	\$17.81
National Community Committee	\$10.80
Individuals with Disabilities Subcommittee	\$3.55
Pacific Provider Development Fund	\$0.20
	\$14.55
SUBTOTAL Community Committees	\$32.36
Specialist Distribution Committees	
Environment and Heritage	\$7.35
Health Research	\$2.56
Marae Heritage and Facilities	\$5.53
Minister's Fund	\$0.15
Outdoor Safety	\$6.65
	\$22.24
TOTAL Lottery Distribution Committees	\$54.60
Statutory Bodies	
Creative New Zealand	\$18.60
Sport and Recreation NZ (SPARC)	\$28.22
NZ Film Commission	\$8.10
NZ Film Archive (via NZ Film Commission)	\$0.60
	\$55.52
TOTAL ALLOCATION 2005 – 2006	\$110.12

Source: Lottery Grants Board and Department of Internal Affairs



NZ Lotteries winners

Improved marketing and public relations

NZ Lotteries has great stories generated by its games and the thousands of winners created each week. This is reflected in media coverage during the 2004/2005 year with television, radio, newspapers and magazines broadcasting or publishing more than 1,200 articles about NZ Lotteries or winners.

Those magical winning moments also inspired Lotto's successful new marketing campaign launched in February with the 'How Great Would It Feel?' positioning.

The combination of the emotive 'winning moments' advertising, featuring characters such as the Bowling Betties, and the call-to-action advertisements reminding people of promotions, and Powerball jackpots, proved most successful. The effect of greater advertising support for Instant Kiwi, especially on television with advertisements such as the 'Who knows what's underneath?' series, was reflected in boosted sales.

The best Christmas gift

Our biggest ever Lotto Christmas promotion really caught players' imagination, offering Lotto players 55 extra prizes worth more than \$2.5 million, including a top prize of a holiday home to the value of \$500,000. Also on offer were Ford Escape cars towing Haines Hunter boats, Mercedes-Benz C240 cars, tours of Europe, Audi TT Coupes, Caribbean cruises, Volkswagen Cabriolets, wads of \$50,000 cash, Sony entertainment systems, and shopping sprees worth \$20,000 each.

The three-week promotion, which cut across three Saturday and two mid-week draws, significantly boosted weekly ticket sales and gave 55 winners some very special Christmas gifts.



Revitalising our retail network

At the end of June, Peninsula Pharmacy in Te Atatu, Auckland, became the 250th store to be fitted with the new retail store format. More than one-third of all NZ Lotteries retail outlets now have the new-look design.

The new format uses less space, occupying as little as 4.5 square metres. Lottery retail outlets previously had to have 27 square metres of shop space dedicated exclusively for lottery products. The new design also provides a greater choice of store layouts.

Peninsula Pharmacy Lotto Manager Gae Sadgrove says she is very happy with the new look because it's bright and cheerful, and she says the feedback from customers has "been very positive".

Many retailers who have refitted with the new design have used the extra space to expand their core businesses and, like Gae Sadgrove, say customers have responded positively to the new, more modern look.

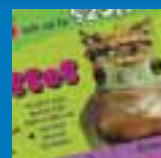
The roll-out of the new design is planned to be completed by the end of 2007.

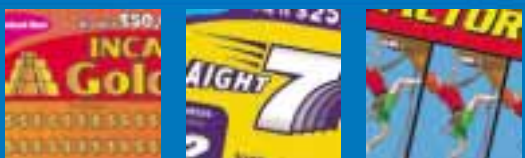
Refurbishing brings luck to Take Note Helensville Stationers

Helensville Stationers' owner Manu Patel says his recent refurbishment has brought luck to his store. He sold a winning First Division ticket in the same week as the refurbishment was completed.

"We've had a first hit now, which is great. Customers are saying the upgrade is the reason why we were so lucky," says Manu.

He says the refurbishment looks "smart, flash and modern" and he is pleased with the response from customers.





NZ Lotteries Chief Executive Trevor Hall and Peninsula Pharmacy owner Fiona Grove



Prizes

For the year in review, \$342,138,345 became payable in prizes to 20,633,129 winners.

Lotto

A total of 2,840,577 winners won \$168,835,544 in prizes with Lotto, and we made 32 millionaires. Forty-eight people won a total of \$8,779,095 on Lotto's Winning Wheel, with 39 cash prizes, three \$50,000 shopping sprees, one overseas trip, one Volkswagen car, one Aston Martin car, one Bentley car, and two \$500,000 house and land packages. The average prize value won on Winning Wheel was \$182,898.

Lotto Powerball

A total of 165,200 winners won \$66,836,162 in prizes with Lotto Powerball, including 11 millionaires and nine multi-millionaires. There were four prizes of \$5 million or more, and the largest prize was \$11,564,725.²

Lotto Strike

A total of 6,554,840 winners won \$37,499,798 in prizes with Lotto Strike, including 27 Strike 4 winners who won a total of \$7,708,082 in prizes.



Keno

A total of 1,685,483 winners won \$14,182,791 in prizes with Keno, including 48 prizes of \$10,000 or more, one prize of \$250,000 and one prize of \$500,000.

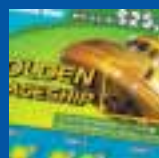
Instant Kiwi

A total of 9,387,029 winners won \$54,784,050 in prizes with Instant Kiwi, including 160 prizes of \$10,000 or more, and three prizes of \$50,000 every year for 10 years. Of these, there were 55 prizes of \$50,000, four prizes of \$75,000, seven prizes of \$100,000, one prize of \$250,000, and three prizes of \$500,000 (paid as \$50,000 every year for 10 years).

Promotions

Players won 10 Ford Falcon limited edition All Black XR8s, 10 Mini Coopers, 10 Holden Monaro CV8s, one holiday home, two Ford Escapes with Haines Hunter boats, three Mercedes Benz's, four tours of Europe, five Audi A4 Cabriolets, six Caribbean cruises, seven VW Cabriolets, eight lots of \$50,000 cash, nine Sony entertainment systems, ten \$20,000 shopping sprees, five lots of \$5,000 per week for 52 weeks, ten Holden Cruzes each containing \$50,000, one \$500,000 house and land package, five lots of \$100,000 cash, ten lots of \$50,000 cash, and ten Mercedes Benz C186s.

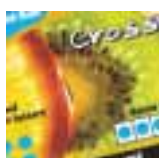
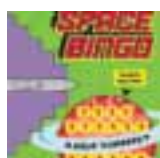
² Won by the Hawkes Bay family who won more than \$12 million in June. The prize was made up of the Powerball jackpot of \$11,564,725, a First Division Lotto win worth \$488,760 and a Fifth Division Lotto win of \$32.



Success in meeting key strategic objectives

For the year in review, NZ Lotteries followed eight key strategies, supported by various business objectives.

<p>1. Simpler games, more games, more often</p>	<ul style="list-style-type: none"> • A simplified and strengthened Lotto game was launched in August 2004. • Instant Kiwi expanded to 12 ticket streams and a static dispenser format in all stores. • A new mid-week game concept was developed for further consideration.
<p>2. Distribution</p>	<ul style="list-style-type: none"> • As at 30 June 2005, 134 new retail outlets were opened, taking the network total to 756, and a new retail format was installed in more than one-third of the retail network. • New Master Agency and Retail Agency agreements were implemented. • New training programmes were implemented.
<p>3. Technology</p>	<ul style="list-style-type: none"> • Suppliers were selected for the new Gaming System, the Management Information System, and the IP network. Contractual negotiations with the selected suppliers were substantially completed. • Premises were acquired to house the new systems. • The new systems will be operational in 2006. • A technology roadmap was developed. • The website was upgraded.
<p>4. A brand that is all about winning and the community</p>	<ul style="list-style-type: none"> • The new corporate identity was developed and integrated into the new retail design and corporate documentation. • Significant news media coverage of winners was generated by Lotto game changes.
<p>5. A winning team</p>	<ul style="list-style-type: none"> • A new performance management system was introduced. • A staff survey was conducted to provide attitudinal benchmarks. • A Wellness Programme was implemented.
<p>6. Operational efficiency</p>	<ul style="list-style-type: none"> • Expenditure as a proportion of sales for 2004/2005 was 7.2%, compared with 6.6% in 2003/2004 and 7.4% in 2002/2003.
<p>7. Communications that win the hearts and minds of all our stakeholders</p>	<ul style="list-style-type: none"> • Good relationships were maintained with all key stakeholders. • A joint branding strategy and Memorandum of Understanding for brand alignment were agreed with the Lottery Grants Board. • A Responsible Play Code of Practice and Responsible Play brochure were completed. • A new advertising campaign has researched positively with customers.



Powerball winners



Lotto Powerball winners

Even though Lotto Powerball jackpotted less often during the year, our players still responded enthusiastically to this long-odds game with big jackpots and we made several big winners. Four of the year's Powerball jackpot prizes exceeded \$5 million and, overall, players won 13 Powerball Division One prizes worth a total of \$53,812,239, and there were nine Powerball multi-millionaires. When Powerball jackpots for several weeks, like it did at the end of the financial year, NZ Lotteries sales increase markedly.

\$12 million win from 'to do' list was second biggest win ever

A Hawkes Bay family's life was changed forever in June when a ticket bought in Napier won its lucky owner a \$12 million Powerball prize, the second largest prize ever won by a single ticket in the history of the game, and the largest won during the 2004/2005 year.

It almost didn't happen — the lucky player knew Powerball was jackpoting, but kept on forgetting to buy a ticket. Putting 'buy a Lotto ticket' on their 'to do' list did the trick, and they were suddenly multi-millionaires. Even then, the family didn't realise they had won \$12 million straight away. Thinking they'd won Lotto First Division, they checked the ticket on the Internet to find they had won an amount they called "out of this world".

The big jackpot win boosted ticket sales and the story of the big Powerball win captivated Hawkes Bay, as well as attracting national news media coverage, benefiting both NZ Lotteries and the retailer who sold the ticket, Andrew Spence from Andrew Spence Pharmacy in Napier.

Mr Spence said it was a "real buzz" to have sold the winning ticket.

"I've had my ten minutes in the sun. I answered questions from newspapers and radio stations, and the store was on the TV news. Something like this comes out of left field. It makes life interesting and definitely retains your interest in the product," he said.





New Zealand's biggest Christmas present

What was almost certainly the biggest Christmas present in New Zealand was won by a Wellington player when they took home \$9.9 million, the second biggest Powerball jackpot of the year and the fourth biggest ever, from Lotto's Christmas Day draw.

The ticket was sold at Kirby's Candies, a busy store in the heart of Wellington, causing Wellingtonians to take time out from holiday celebrations to check tickets and make sure they didn't have the 'big one'.

They didn't have long to dream though, as after watching the Christmas draw and realising they had won, the winner claimed the \$9.9 million prize early on Boxing Day.

Top score for Sevens fan

Imagine what it would feel like to become a multi-millionaire with Lotto Powerball on only the fourth ticket you've ever bought.

In what was one of the biggest, and perhaps most remarkable, wins of the year that is exactly what happened in February to a rugby Sevens fan who won a \$6.5 million Lotto Powerball jackpot with a ticket bought in Paraparaumu, just north of Wellington.

It was the third biggest prize of the year and was won after a spur-of-the-moment decision to buy a Lotto Triple Dip ticket. A keen rugby fan, the winner visited Coastlands Lotto on his way to an International Rugby Board (IRB) Sevens tournament in Wellington and bought a ticket after being told by his brother that "the Powerball jackpot's getting big and you should buy a ticket".

The ticket survived the IRB Sevens' revelry, but the winner didn't know he'd won until he checked a newspaper for results two days after the draw.

Hard work turns to play for Christchurch couple after \$3.7 million Powerball win

They were loyal, hardworking staff members at Skellerup Industries in Christchurch for many years, and the whole company celebrated when South Islanders Christine Kearns and her partner Kelvyn Broadbent won a \$3.7 million Lotto Powerball jackpot in March 2005.

Mr Donald Stewart, CEO of Skellerup Industries, said everyone was thrilled for the well-liked couple.

"It couldn't have happened to nicer people. There was great excitement as usually you only hear about these things, but we were all part of the moment," he said.

The lucky couple, who bought the winning ticket at Rangiora Gift & Lotto, have now retired and are enjoying realising some long-held travel dreams.

Still, it will be some time before their old workmates forget the winning moment, which happened at work.

"I was checking my ticket, and got to six numbers and my hands were shaking. I took the ticket to my friend and asked her to check the Powerball number and then we both just screamed," says Christine.



Benchmarking

NZ Lotteries reviews its performance each year against similar organisations both in New Zealand and overseas. This section sets out some of that comparative information.

In December each year, Deloitte and *NZ Management Magazine* provide a measure of the Top 200 New Zealand companies. Using this analysis, in 2003/2004 NZ Lotteries would rank:

- 6th for profits after tax³ – \$113.5 million (13th – \$107.9 million in 2002/2003)
- 40th for turnover⁴ – \$628.8million (47th – \$539.9 million in 2002/2003).

International performance measures

Comparing lotteries is a complex business and any comparisons are no more than a guide to overall performance. Lotteries vary so much in their regulatory frameworks, social and cultural environments, physical terrain for providing services, the potential numbers and relative economic wealth of their players, degree of state control, cost structures and amount of competition within their markets, that no simple, overall comparison can ever be strictly valid.

NZ Lotteries sales must also be viewed in the context of relatively low national spending on gaming and gambling products. Australia's per capita expenditure in this area – turnover less winnings – is more than twice New Zealand's.

Per capita comparisons

La Fleur's 2005 World Lottery Almanac provides statistical comparisons for most lottery organisations worldwide. Exchange rate fluctuations affect these rankings because they are calculated in United States (US) dollars. The New Zealand dollar rose by 9.9% against the US dollar during the 2004 calendar year. According to the *Almanac*, NZ Lotteries sales give it the following international rankings on a per capita basis:

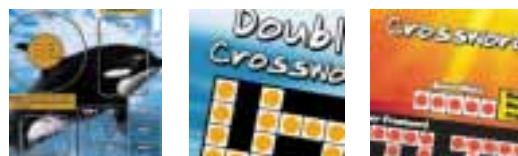
2003 calendar year	Our ranking
Worldwide total sales	75 from 176 (79 from 179 in 2003)
Worldwide Lotto sales	51 from top 100 (51 in 2003)
Worldwide instant sales	64 from top 100 (65 in 2003)



The new format for NZ Lotteries outlets is flexible and offers retailers a way of more effectively integrating the selling of our products with their core business. Hornby Mall Lotto owner John Lee upgraded his business in March and incorporated the new look Lotto design into his Christchurch shop. He says the new Lotto design fits well with his own new look and has drawn favourable comments from his customers.

³ Note in the profit comparison that although NZ Lotteries does not pay income tax, it paid lottery duty of \$34.6 million in 2003/2004 and \$29.7 million in 2002/2003.

⁴ The turnover figure is GST inclusive.





Hornby Mall Lotto has been redesigned as a newsagent-style Lotto area, selling a variety of incidental products in addition to NZ Lotteries products and thus maximising usage of this space. NZ Lotteries new retail outlet design features strong visual branding that can be integrated with other strong brands without competing or detracting from either brand.

Personal income comparisons

A comparison with Australian lotteries shows that their prize sizes, number of games offered, spend per capita, and distribution footprint are all greater than our own. For example, in New Zealand we have an average of 1.8 lottery retailers per 10,000⁵ people compared with 2.4 retailers per 10,000 people in Queensland, and 3.5 retailers per 10,000 people in South Australia.⁶

All overseas jurisdictions have their Lotto games spread through the week as opposed to all being linked on one day, as they are in New Zealand. Despite this, the sales figures above show that NZ Lotteries is performing to a reasonable level internationally.

In its March 2005 issue, *Lottery Business*, a quarterly supplement to the *International Gaming and Wagering Bulletin*, assessed all 41 US State lotteries on a series of effectiveness and efficiency measures. Instead of the usual per-capita comparisons, *Lottery Business* used aggregated personal-income figures for each US State to calculate the percentage of personal income spent on lottery sales.

The *Lottery Business* approach gives an effectiveness, or market-penetration, measure that is not distorted by some lottery markets having more citizens with higher levels of disposable income. NZ Lotteries has adopted this methodology and applied it to its own performance as a means of international benchmarking. This year NZ Lotteries ranking has improved in three of the four categories.

⁵ Based on 756 retailers and population of 4,098,200 at 30 June 2005.

⁶ Lotterywest, *Australasian Lotteries Industry Report* YTD March 2005; Queensland has a similar population to New Zealand.

NZ Lotteries ranked as follows for the 2003/2004 financial year:

1. Effectiveness and market-penetration measure:
Fiscal 2003/2004 sales as a per cent of US State personal income. NZ Lotteries comparative ranking is 9th at 0.65% (12th in 2002/2003).
2. Fiscal effectiveness measure:
Fiscal 2003/2004 government revenue as a per cent of US State personal income. NZ Lotteries comparative ranking is 11th at 0.19% (14th in 2002/2003).
3. Efficiency measure:
Ranked by cents spent to generate one sales dollar in fiscal 2003/2004.* NZ Lotteries comparative ranking is 22nd at 14.3 cents (24th in 2002/2003).
* Economies of scale, population density, the percentage of rural and urban outlets, the amount of competition, commission fees, as well as telecommunications, advertising, and office accommodation costs all affect the relative cost structures of different lotteries.
4. Fiscal efficiency measure:
Fiscal 2003/2004 revenue generated for community and government as a per cent of gross revenue (sales minus prizes).* NZ Lotteries comparative ranking is 24th at 65.6% (23rd in 2002/2003).
* This measure uses gross revenue figures, and so evens out the effect of lower prize payouts between lotteries.

Technical notes to this particular international benchmarking comparison:

- US State personal income figures were for the calendar year 2004.
- US State lotteries' revenue and expense results were predominantly for the year to 30 June 2004.
- New Zealand personal income figures are consistent with the definition used for US personal income figures. They were derived from Statistics New Zealand's Household Income and Outlay Account for the year to 31 March 2004.
- NZ Lotteries revenue and expenses were for the year to 30 June 2004. GST has been treated as being fully paid to the Government. However, NZ Lotteries receives credits of approximately \$10 million because of the GST it pays on services from its suppliers. These credits have been treated as being ultimately paid to the Government by those suppliers.



Community winners

New Zealand Film Commission

New Zealand has become famous for its filmmakers, be they actors, directors, or one of the many other dedicated people who make movies happen. NZ Lotteries is playing its part with the New Zealand Film Commission being a major beneficiary of lottery grants. The New Zealand Film Commission was allocated \$8.1 million in funding for the 2004/2005 period.

The New Zealand Film Commission exists to support and encourage talented New Zealanders by financing the development and production of New Zealand films. The results speak for themselves, with the acclaimed movie *Whale Rider* being a recipient of such funding.

A more recent example of cinematic excellence supported by the New Zealand Film Commission is the New Zealand film *In My Father's Den* which impressed critics at several international film festivals, and was embraced by audiences throughout the country in 2004/2005.

Director Brad McGann's film, based on the novel of the same name by Maurice Gee, reached a total of \$1 million in box office revenue in only seven weeks after its release in New Zealand cinemas in October 2004.

The film was selected for three major international film festivals in 2004, winning the International Critics Prize at the 29th Toronto Film Festival, the Youth Jury prize at a prestigious Spanish festival, as well as prizes for cinematography, and Best New Director at other international festivals. It received twelve nominations for the 2005 New Zealand Screen Awards, going home with ten prizes, including the coveted title of Best Picture.

Sport and Recreation New Zealand

New Zealand prides itself on being a sports-mad nation, punching above its weight in international sport, and participating in a wide array of sporting activities at home.

Every year, Sport and Recreation New Zealand receives significant lottery funding to help keep New Zealanders active and support high-performance sports. Sport and Recreation New Zealand was allocated \$28.2 million in lottery funding for the 2004/2005 year.

Sport and Recreation New Zealand is dedicated to getting Kiwis 'up off the couch'. That means doing everything from supporting elite athletes, to getting out into local communities, and operating the well-known 'Push Play'⁷ programme.

Its support for high-performance sports created a golden winning moment in 2004 when Caroline and Georgina Evers-Swindell won gold medals in the double sculls at the Athens Olympics. Their success has been greatly assisted by Sport and Recreation New Zealand's support for Rowing New Zealand.

To replicate that winning feeling at future international events, Sport and Recreation New Zealand has invested \$4.5 million in Rowing NZ's high performance programme over the next four years. A further \$1 million is being invested in Rowing NZ's talent development programme.



⁷ 'Push Play' is a nationwide SPARC campaign to get more New Zealanders more active more often based on the principle 'All it takes is 30 minutes a day.'





Creative New Zealand

Fostering excellence and creativity is Creative New Zealand, another major beneficiary of lottery grants. Creative New Zealand has been allocated \$18.6 million in funding for the 2004/2005 period.

With research showing that more than 90 percent of New Zealand adults take part in an average of four arts activities every month, it's fitting that NZ Lotteries supports an area that so many Kiwis are involved in.

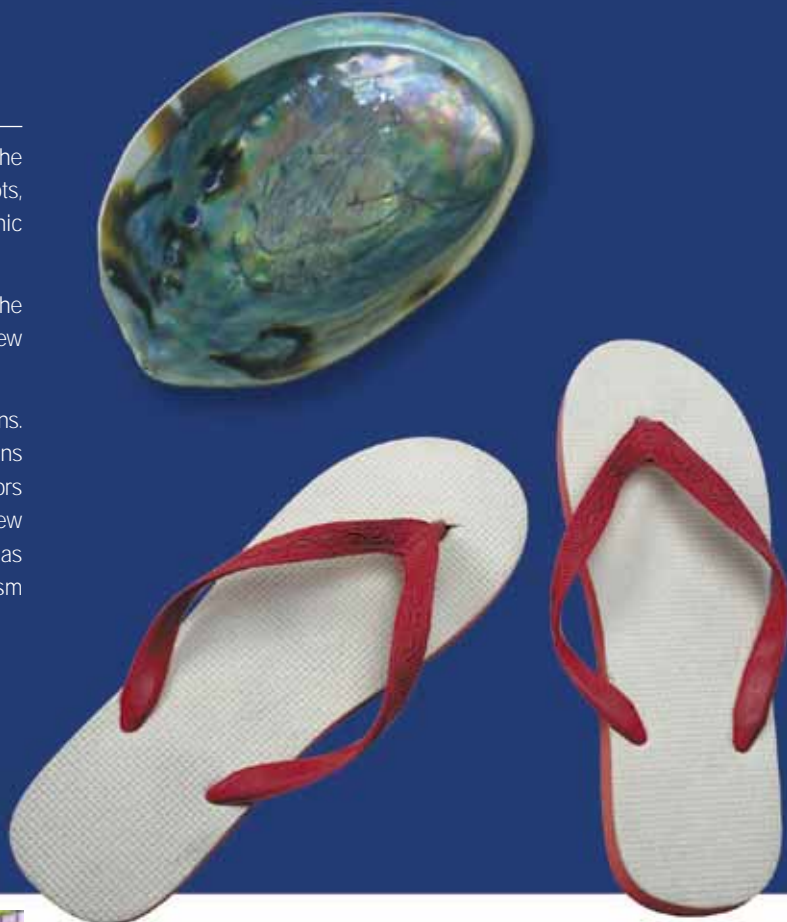
Every year, Creative New Zealand supports thousands of arts projects throughout New Zealand. To highlight where the money goes, Creative New Zealand and NZ Lotteries developed an information pack during the year under review, describing the amazing creative activities happening in every region of New Zealand.

Kiwiana Festival

An example of the creative projects supported by Creative New Zealand is the Kiwiana Festival in Otorohanga, which featured goal kicking in gumboots, pikelets, sheepdogs herding geese, senior marching ladies, and iconic mascots from Waikato's Mooloo to Buzzy Bee.

Otorohanga has branded itself as the Kiwiana town of New Zealand, and the Kiwiana Festival was supported with \$2,500 in grants from Creative New Zealand's Creative Communities Scheme.

The festival celebrates New Zealand's popular icons, heroes, and traditions. Previous events in Otorohanga have included pavlova baking competitions and Aunt Daisy impersonations. Large corrugated-iron kiwis welcome visitors to the town, and a Kiwiana mural — designed and painted by renowned New Zealand artist David Henshaw — was unveiled in late 2004. All of this has meant that Otorohanga is now featured in several international tourism guidebooks.



Comparison with *Statement of Intent*

Each year we provide the Crown with a *Statement of Intent* in which we set out our plans for the next three financial years. We also publish in each year's *Annual Report* a comparison between the financial performance targets contained in the *Statement of Intent* and our actual performance.

The following table compares our performance in 2004/2005 against the figures in the *Statement of Intent* for that year.

NZ Lotteries exceeded all its projected financial objectives for the 2004/2005 financial year, except in relation to operating expenditure. Sales of \$630.4 million were \$28.4 million above budget for reasons noted previously. Our transfer to the New Zealand Lottery Grants Board also exceeded its target.

	<i>Statement of Intent</i>	Actual
Financial performance targets		
a) Total sales (GST inclusive)	\$602.0m	\$630.4m
b) Net profit	\$119.3m	\$130.4m
c) Expenditure	\$43.4m	\$45.6m
d) Paid to NZ Lottery Grants Board	\$114.0m	\$123.4m
Other performance measures		
a) Annual per capita sales for adults 18 and over (GST inclusive)	\$206	\$209
b) Share of retail spending*	1.6%	1.6%
Capital expenditure	\$17.3m	\$8.8m**

* NZ Lotteries uses retail sales as measured by the Department of Statistics retail sales survey (excluding automobiles and automobile products).

** Payments budgeted for the replacement gaming system did not fall due until after the end of the financial year.

Corporate citizen and integrity performance measures

We also publish in our *Statement of Intent* several other measures that show our commitment to integrity, responsibility, and being a good corporate citizen:

To conduct all draws on time for Lotto (including Lotto Powerball), Daily Keno, and any new draw games introduced by NZ Lotteries during the year.

Not fully achieved: For Lotto draw 899, on 18 September 2004, extra Winning Wheel tickets were drawn as a special promotion. A technical problem caused a delay in the announcement of all winners until 9pm instead of 8pm as scheduled.

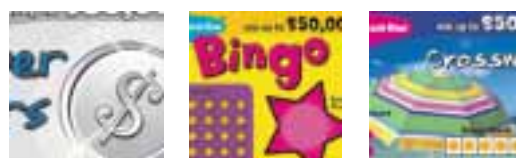
During the televised Lotto draw 918, on 15 January 2005, there was a time delay due to a technical problem during rehearsals. As a consequence, the Powerball draw was run off-air and results were confirmed on the 9pm draw.

To comply with the provisions of the Gambling, Fair Trading, Commerce, and Consumer Guarantees Acts.

Achieved: During the 2004/2005 year, NZ Lotteries committed no offences against the Gambling, Fair Trading, Commerce, and Consumer Guarantees Acts.

Ensure that no complaints about New Zealand Lotteries advertising are upheld by the Advertising Standards Authority Complaints Board.

Achieved: No complaints about the Commission's advertising were upheld by the Advertising Standards Complaints Board during 2004/2005.



Key objectives for 2005/2006

Financial objectives

NZ Lotteries key financial objectives for the 2005/2006 financial year are:

- to achieve gross sales of \$640 million
- to achieve a net surplus of \$123.1 million
- to transfer \$114 million to the Lottery Grants Board
- to hold NZ Lotteries expenditure to its budget of \$49.2 million.

Business strategies

Key business strategies established in 2004/2005 have been reviewed and refined as follows:

Products and customers

- Attract more players by strengthening the appeal of our games, using effective and appropriate marketing and promotional initiatives.
- Create more opportunities for our customers to play and win, taking into account the new Gambling Act environment with its focus on harm minimisation.

Distribution

- Provide a flexible, cost-effective retail model that meets the needs of a changing population.
- Move to an environment in which customers may, if they wish, purchase our products electronically.

Technology

- Successful replacement of our centralised gaming system and the lottery terminals in all our outlets.
- Ensure that our gaming system is capable of delivering our products cost-effectively and reliably through an expanded distribution network.
- Develop our technology roadmap for the future — interactive games, interactive channels, and improved business processes.

Organisational identity

- Successful implementation of the new organisational identity.
- A strengthened public perception that all NZ Lotteries games offer the opportunity to win prizes, that the proceeds are used to enhance the New Zealand way of life, and that they are conducted with total integrity.

Winning team

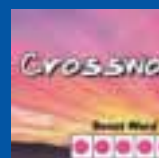
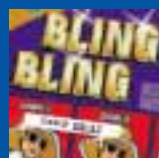
- Promotes teamwork and success.
- Enables effective delivery of products and support mechanisms.
- Encourages effective capture of market innovations.

Operational efficiency and processes

- Strengthen our focus on cost management to improve operational efficiency and drive down costs.
- Invest wisely for the future.

Connecting with stakeholders

- Raise awareness of the benefits arising for the community from our profits.
- Improve the quality of our communications with our customers, retailers, staff, government, and associated political and industry stakeholders.



New Zealand Lotteries Commission Financial Statements

For the year ended 30 June 2005

Statement of Responsibility

The New Zealand Lotteries Commission's (NZ Lotteries) *Annual Report* is prepared according to the provisions of the Public Finance Act 1989 and the Gambling Act 2003.

NZ Lotteries management is responsible for the preparation of its annual financial statements and for the judgements used in their preparation.

NZ Lotteries management has maintained a system of internal control that has been designed to provide reasonable assurance about the integrity and reliability of the financial reports.

In the opinion of NZ Lotteries management, the annual financial statements fairly reflect the financial position and operations of NZ Lotteries.



John Goulter DCNZM, FINSTD, FINSTM, JP
Presiding Member

4 October 2005



Trevor Hall
Chief Executive

Report of the Auditor-General



Audit New Zealand

To the readers of the New Zealand Lotteries Commission's Financial Statements for the year ended 30 June 2005

The Auditor-General is the auditor of the New Zealand Lotteries Commission. The Auditor-General has appointed me, John O'Connell, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements of the New Zealand Lotteries Commission, on his behalf, for the year ended 30 June 2005.

Unqualified Opinion

In our opinion the financial statements of the New Zealand Lotteries Commission on pages 30 to 43:

- comply with generally accepted accounting practice in New Zealand; and
- fairly reflect:
 - the New Zealand Lotteries Commission's financial position as at 30 June 2005; and
 - the results of its operations and cash flows for the year ended on that date.

The audit was completed on 4 October 2005, and is the date at which our opinion is expressed.

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

Basis of Opinion

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements did not have material misstatements, whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

The audit involved performing procedures to test the information presented in the financial statements. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Board;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statement disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements.

We evaluated the overall adequacy of the presentation of information in the financial statements. We obtained all the information and explanations we required to support our opinion above.

Responsibilities of the Board and the Auditor

The Board is responsible for preparing financial statements in accordance with generally accepted accounting practice in New Zealand. Those financial statements must fairly reflect the financial position of the New Zealand Lotteries Commission as at 30 June 2005. They must also fairly reflect the results of its operations and cash flows for the year ended on that date. The Board responsibilities arise from the Public Finance Act 1989 and Gambling Act 2003.

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and the Public Finance Act 1989.

Independence

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the Institute of Chartered Accountants of New Zealand.

In addition to the audit, Audit New Zealand acts as scrutineer for all the Lotto products, Daily Keno games, and Instant Kiwi products, which are compatible with those independence requirements.

Other than the audit and these assignments, we have no relationship with or interests in the New Zealand Lotteries Commission.

John O'Connell, Audit New Zealand

On behalf of the Auditor-General, Wellington, New Zealand

Matters relating to the electronic presentation of the audited financial statements

This audit report relates to the financial statements of the New Zealand Lotteries Commission for the year ended 30 June 2005 included on the New Zealand Lotteries Commission's web-site. The New Zealand Lotteries Commission's Board is responsible for the maintenance and integrity of the New Zealand Lotteries Commission's web site. We have not been engaged to report on the integrity of the New Zealand Lotteries Commission's web site. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and related audit report dated 4 October 2005 to confirm the information included in the audited financial statements presented on this web site.

Legislation in New Zealand governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement of Financial Performance

For the year ended 30 June 2005

	NOTE	30/6/05 \$000	% of Sales	30/6/05 Budget \$000	% of Sales	30/6/04 \$000	% of Sales
Sales (including GST)	2	630,374	100.0%	602,000	100.0%	628,819	100.0%
Cost of sales	3	465,204	73.8%	445,706	74.0%	461,399	73.4%
Other revenue	4	165,170 10,779	26.2% 1.7%	156,294 6,508	26.0% 1.1%	167,420 7,888	26.6% 1.3%
Operating expenses	5	175,949 45,552	27.9% 7.2%	162,802 43,465	27.0% 7.2%	175,308 41,858	27.9% 6.7%
Net surplus		130,397	20.7%	119,337	19.8%	133,450	21.2%
Distribution to the New Zealand Lottery Grants Board		123,397	19.6%	114,000	18.9%	118,450	18.8%
Net surplus after distribution to the New Zealand Lottery Grants Board		7,000	1.1%	5,337	0.9%	15,000	2.4%

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

Statement of Movements in Equity

For the year ended 30 June 2005

	30/6/05 \$000	30/6/05 Budget \$000	30/6/04 \$000
Net surplus for the year after distribution to the New Zealand Lottery Grants Board	7,000	5,337	15,000
Total recognised revenues and expenses for the year	7,000	5,337	15,000
Movements in equity for the year	7,000	5,337	15,000
Equity at the beginning of the year	22,910	24,257	7,910
Equity at the end of the year	29,910	29,594	22,910

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

Statement of Financial Position

As at 30 June 2005

	NOTE	30/6/05 \$000	30/6/05 Budget \$000	30/6/04 \$000
ASSETS EMPLOYED				
Investments	8	71,686	45,181	73,814
Current assets	9	13,427	4,500	4,870
Fixed assets	10	10,392	24,343	9,158
Total assets employed		95,505	74,024	87,842
FUNDS EMPLOYED				
Current liabilities	11	52,568	28,400	51,988
Prize reserve account	12	10,968	15,017	11,750
Long term liabilities	13	2,059	1,013	1,194
Equity		29,910	29,594	22,910
Total funds employed		95,505	74,024	87,842

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



John Goulter DCNZM, FINSTD, FINSTM, JP
PRESIDING MEMBER

4 October 2005



Trevor Hall
CHIEF EXECUTIVE

Statement of Cash Flows

For the year ended 30 June 2005

	NOTE	30/6/05 \$000	30/6/05 Budget \$000	30/6/04 \$000
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash was provided from:				
Sale of game tickets		598,491	572,544	603,211
Interest received		5,089	2,826	4,004
Other receipts		7,335	5,308	5,699
Cash was applied to:				
Prize payments		346,421	337,285	344,971
Lottery duty		33,785	33,110	34,466
Franchised retailers' commission		44,079	42,052	44,479
Other payments		51,334	48,187	37,737
Net GST paid		(1,403)	-	643
Payments to the New Zealand Lottery Grants Board		129,450	125,000	105,800
Net cash inflow from operating activities	15	7,249	(4,956)	44,818
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash was provided from:				
Sale of fixed assets		568	70	191
Cash was applied to:				
Purchase of fixed assets		8,756	17,281	2,590
Net cash outflow from investing activities		(8,188)	(17,211)	(2,399)
Net increase in cash held		(939)	(22,167)	42,419
Cash balance at the beginning of the year		72,547	67,398	30,128
Cash balance at the end of the year		71,608	45,231	72,547
Reconciliation of the cash balance at the end of the year with Statement of Financial Position items				
		30/6/05 \$000	30/6/05 Budget \$000	30/6/04 \$000
Bank and cash deposits		48	-	839
Cash book overdraft		(126)	50	(2,106)
Investments		71,686	45,181	73,814
Cash balance at the end of the year	16	71,608	45,231	72,547

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

Statement of Commitments

As at 30 June 2005

	30/6/05 \$000	30/6/04 \$000
Capital commitments approved and contracted	2,249	240
Non-cancellable operating lease commitments payable:		
Not later than one year	664	329
Later than one year and not later than two years	335	329
Later than two years and not later than five years	319	136
	1,318	794
Other non-cancellable contracts:		
Not later than one year	3,685	3,938
Later than one year and not later than two years	592	2,205
Later than two years and not later than five years	-	1,361
	4,277	7,504
Total commitments	7,844	8,538

The Commission has non-cancellable operating leases for all offices other than the freehold land and building at 117 Khyber Pass Road, Auckland. These lease operating commitments are included in the table above. Further details are as follows:

Auckland office: The existing lease runs until December 2006 with a renewal option of a further three years. The annual rental and estimated share of expenses is \$329,000.

Christchurch office: The existing lease runs until July 2007 with a renewal option of a further three years. The annual rental is \$16,265.

Wellington office: The existing lease runs until July 2008 with two renewal options of a further three years each. The annual rental is \$319,033.

At balance date the Commission had entered into non-cancellable contracts for the provision of services including building services and computer maintenance.

Statement of Contingent Liabilities

As at 30 June 2005

There were no significant contingent liabilities at either 30 June 2005 or 30 June 2004.

Notes to the Financial Statements

1. Statement of accounting policies

Reporting entity

These are the New Zealand Lotteries Commission's financial statements. They are prepared subject to the provisions of the Public Finance Act 1989 and the Gambling Act 2003.

Accounting convention

The financial statements are prepared under the modified historical cost accounting method. The land and building owned by the Commission are revalued periodically. The financial statements comply with the Financial Reporting Standards and Statements of Standard Accounting Practice issued by the Institute of Chartered Accountants of New Zealand.

Budget figures

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

Employee entitlements

Provision is made in respect of the liability for annual and long-service leave on an actual entitlement basis.

In addition provision is made for future long-service leave entitlements based on the portion of those entitlements that relates to periods of service up to the end of the financial year. The liability is based on current rates of pay and includes superannuation contributions if applicable.

Financial instruments

The most significant financial instrument transactions entered into by the Commission relate to investments which include on-call funds, bank bills, and government stock.

Investments are recorded at cost, adjusted in the case of government stock by the amortisation of any premium or discount included in the purchase price. Interest is recognised as income on the accrual basis.

Interest on investments relating to unpaid prizes and the prize reserve account is credited direct to the prize reserve account. Interest on other investments is credited in the Statement of Financial Performance.

The value of investments held fluctuates as changes in market interest rates occur. However, as the Commission is primarily a short-term investor, the extent of such fluctuations in value is limited.

The Commission's policy is to restrict its investments to instruments issued or guaranteed by either the New Zealand Government or registered New Zealand banks. Although investments are normally held to maturity, they are readily marketable and therefore may be regarded as liquid assets.

From time to time, as appropriate, the Commission enters into forward foreign currency contracts for the purpose of hedging its exposure to expected future purchases in foreign currency of computer hardware and software.

Fixed assets and depreciation

All fixed assets are initially recorded at cost. The net current value of the land and building is assessed by an independent valuer every three years, and the book values adjusted accordingly. Depreciation of fixed assets, other than freehold land which is not depreciated, is calculated on a straight line basis so as to allocate the cost of the assets, or the revalued amount, over their estimated useful lives as follows:

Gaming computers and associated equipment	1 – 5 years
Other computer hardware and software	3 years
Leasehold improvements	2 – 5 years
Draw equipment	5 years
Furniture and fittings	10 years
Motor vehicles	4 years
Office equipment	5 years
Building	
- Structure	25 years
- Services	15 years
- Fit out	8 years

In the case of some leasehold improvements the depreciation rate has been accelerated to reflect the likelihood that the Commission's tenure of its leased premises in Auckland will be shorter than originally expected.

Goods and Services Tax (GST)

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

Leases

Operating leases

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased item are classified as operating leases. Operating lease expenses are recognised on a systematic basis over the period of the lease.

Prize reserve account

This account is established in accordance with the requirements of the rules governing the conduct and operation of the Commission's games. Transfers into this account comprise amounts set aside from the prize pools for games, together with prizes unclaimed after twelve months from the date of the relevant draw or game closure. Funds accumulated in this account are used exclusively for the purposes of augmenting the prize pools for various draws and games.

Revenue and expense recognition

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

Statement of cash flows

Cash means cash balances on hand, held in bank accounts, demand deposits, and other highly liquid investments in which the Commission invests as part of its day-to-day cash management.

Cash flows from operating activities include cash received from all income sources of the Commission, and cash payments made for the supply of goods and services and to the New Zealand Lottery Grants Board.

Investing activities are those activities relating to the acquisition and disposal of non-current assets.

Taxation

The Commission is exempt from income tax by virtue of Section 264 of the Gambling Act 2003.

The Commission pays the following taxes:

- lottery duty of 5.5 cents in the dollar on GST-inclusive sales
- problem gaming levy of 0.14 cents in the dollar on GST-inclusive sales less prizes payable
- goods and services tax charged on lottery sales less related prizes payable
- fringe benefit tax.

Changes in accounting policies

The accounting policies are consistent with those used in the previous annual financial statements.

2. Sales

	30/6/05	30/6/05	30/6/04
	\$000	Budget \$000	\$000
Lotto, Lotto Strike and Powerball	501,883	473,000	512,523
Instant Kiwi	105,303	102,500	94,233
Keno	23,188	26,500	22,063
Sales including GST	630,374	602,000	628,819
GST	31,264	29,498	31,632
Sales net of GST	599,110	572,502	597,187

From 10 May 2004 Keno draws have been conducted twice daily for seven days per week. Prior to that date the draws were conducted once a day.

3. Cost of sales

	30/6/05	30/6/05	30/6/04
	\$000	Budget \$000	\$000
GST	31,264	29,498	31,632
Lottery duty	34,671	33,110	34,585
Problem gaming levy	305	336	-
Franchised retailers' commission	44,117	42,140	44,081
Prizes paid and payable	336,938	323,026	333,656
Prize reserve fund	13,053	13,496	13,614
Ticket costs	4,856	4,100	3,831
	465,204	445,706	461,399

4. Other revenue

	30/6/05	30/6/05	30/6/04
	\$000	Budget \$000	\$000
Telecommunications and terminal maintenance cost recovery	4,008	3,960	3,928
Franchise fees	966	1,000	1,302
Interest	2,957	1,126	2,237
Profit on sale of freehold property*	2,077	-	-
Other	771	422	421
	10,779	6,508	7,888

* The profit on sale relates to the sale of the Cambridge Terrace, Wellington property. The Commission entered into an unconditional contract to sell the freehold land and building on 18 May 2005 for \$7,140,000. A deposit of \$500,000 was received on 20 May 2005 and the \$6,640,000 settlement on 1 July 2005. Accordingly the transaction has been treated as a sale of the property within the year ended 30 June 2005.

5. Operating expenses

	30/6/05	30/6/05	30/6/04
	\$000	Budget \$000	\$000
Operating expenses include:			
Audit fees for conducting the external audit	82	80	78
Audit fees for scrutineering lottery draws	63	63	72
Audit fees for other services	25	-	23
Commission members' fees	108	87	101
Depreciation of fixed assets	2,483	2,028	2,096
Interest	5	6	10
Leasing and renting costs	384	256	204

The total depreciation charge for each class of assets for the year is as follows:

	30/6/05	30/6/04
	\$000	\$000
On cost:		
Gaming computers and associated equipment	1,380	1,048
Other computer hardware and software	284	329
Leasehold improvements	128	114
Draw equipment	56	38
Furniture and fittings	40	40
Motor vehicles	186	178
Office equipment	51	93
Khyber Pass Road, Auckland	98	-
Building additions (Cambridge Terrace, Wellington)	-	15
	2,223	1,855
On valuation:		
Building (Cambridge Terrace, Wellington)	260	241
	2,483	2,096

6. Employee remuneration

This note sets out the number of employees and former employees who received over \$100,000 in total remuneration during the year.

Total remuneration includes the annual cost to the Commission of all elements of contracted remuneration packages (salaries together with any benefits including motor vehicles, superannuation scheme contributions made by the Commission, and fringe benefit tax).

The information below reflects the amount actually paid, or, in the case of benefits, actually provided during the year.

The remuneration package for the Chief Executive is set in accordance with the terms of the contract of employment, which is negotiated by the Commission in consultation with the State Services Commission. The remuneration of other senior executives is set by the Chief Executive in consultation with the Remuneration Committee of the Commission. In setting compensation for all executives, market information for similar management positions within the full range of New Zealand businesses is assessed.

The information used for this purpose includes benchmark compensation indicators contained in the results of surveys conducted by employment and remuneration specialists.

Total remuneration	Number of employees	
	30/6/05	30/6/04
\$100,000 to \$109,999	4	3
\$110,000 to \$119,999	2	1
\$120,000 to \$129,999	2	3
\$130,000 to \$139,999	1	1
\$140,000 to \$149,999	1	2
\$160,000 to \$169,999	2	-
\$170,000 to \$179,999	1	1
\$180,000 to \$189,999	1	-
\$220,000 to \$229,999	-	1
\$270,000 to \$279,999	1	1
\$350,000 to \$359,999	1	-

The employees listed above include the Chief Executive whose remuneration fell within the \$350,000 to \$359,999 range.

In the previous year his remuneration was within the \$270,000 to \$279,999 range.

During the year two persons who ceased to be employees received a total of \$20,666 as compensation or other benefits in relation to the cessation of employment. This information is provided pursuant to the Gambling Act 2003 (schedule 4, section 44).

7. Commission members' fees

	30/6/05 \$000	30/6/04 \$000
John Goulter, Presiding Member from 24 October 2003	37	29
Paddy Austin, Deputy Presiding Member from June 2005	2	-
Kerry Marshall, Presiding Member to 23 October 2003	-	11
Charles Chauvel, Deputy Presiding Member to 31 December 2004	12	19
Sally Jo Cunningham	19	7
Sue Driver, to 23 October 2003	-	7
Guy Herbert	19	11
Kay McKelvie	19	17
	108	101

8. Investments

The fair value of investments (based on quoted market prices) together with their maturity terms and purchase yields were as follows:

	30/6/05 Carrying amount \$000	30/6/05 Fair value \$000	30/6/05 Purchase yield %	30/6/04 Carrying amount \$000	30/6/04 Fair value \$000	30/6/04 Purchase yield %
On-call	4,692	4,692	6.75%	4,623	4,623	5.75%
Maturing within 1 year	66,994	66,980	7.04%	69,191	69,163	6.04%
	71,686	71,672	7.02%	73,814	73,786	6.03%

	30/6/05	30/6/04
The weighted average effective interest rates were:	7.02%	6.03%

The fair value of the financial instruments is approximately equivalent to the carrying amount of the investments disclosed in the Statement of Financial Position except for forward foreign currency contracts as follows:

	30/6/05 Carrying amount \$000	30/6/05 Fair value \$000
Short-term forward foreign currency contracts	14,460	14,325

9. Current assets

	30/6/05 \$000	30/6/04 \$000
Bank and cash deposits	48	839
Due from retailers for current games	1,527	680
Trade receivables	315	65
Property sale receivable	6,653	-
Accrued interest	421	226
Prepayments	1,883	1,565
Instant Kiwi ticket stock	1,391	1,392
Stock	1,189	103
	13,427	4,870

10. Fixed assets

	Gross 30/6/05 \$000	Accumulated Depreciation 30/6/05 \$000	Book Value 30/6/05 \$000	Gross 30/6/04 \$000	Accumulated Depreciation 30/6/04 \$000	Book Value 30/6/04 \$000
At cost:						
Gaming computers and associated equipment	20,743	19,248	1,495	19,278	17,868	1,410
Other computer hardware and software	1,566	1,260	306	1,398	1,088	310
Leasehold improvements	1,988	1,845	143	1,988	1,717	271
Draw equipment	708	607	101	1,046	956	90
Furniture and fittings	1,538	1,224	314	1,504	1,192	312
Motor vehicles	827	333	494	749	233	516
Office equipment	1,255	1,118	137	1,353	1,197	156
Khyber Pass Road, Auckland	6,205	98	6,107	-	-	-
Building additions (Cambridge Terrace, Wellington)	-	-	-	247	15	232
	34,830	25,733	9,097	27,563	24,266	3,297
At valuation:						
Land (Cambridge Terrace, Wellington)	-	-	-	1,000	-	1,000
Building (Cambridge Terrace, Wellington)	-	-	-	4,222	302	3,920
	-	-	-	5,222	302	4,920
Work in progress:						
Gaming computers and associated equipment	232	-	232	908	-	908
Other computer hardware and software	759	-	759	5	-	5
Draw equipment	-	-	-	28	-	28
Building renovations (Khyber Pass Road, Auckland)	304	-	304	-	-	-
	1,295	-	1,295	941	-	941
	36,125	25,733	10,392	33,726	24,568	9,158

On 28 February 2005 the Commission purchased freehold the Khyber Pass Road land and building for \$6,200,000. The property is stated at cost less depreciation to date on the building. The building is to undergo substantial refurbishment during the forthcoming year. It is intended that the net current value of the land and building will be assessed by an independent valuer upon completion of the refurbishment. The carrying value of the property will be adjusted accordingly.

The government valuation of the property at 1 September 2002 was \$5.225 million comprising land (\$1.800 million) and improvements (3.425 million). The Commission entered into an unconditional contract to sell its Cambridge Terrace, Wellington freehold land and building on 18 May 2005 for \$7,140,000. A deposit of \$500,000 was received on 20 May 2005 and the balance of \$6,640,000 on 1 July 2005. Accordingly the transaction has been treated as a sale of the property within the year ended 30 June 2005. There was a profit of \$2,077,000 over book valuation on the sale and this is included within the Other Revenue total in the Statement of Financial Performance.

Work in progress amounting to \$1,295,000 was included in the Gross and Book Value totals at 30 June 2005 (\$941,000 at 30 June 2004).

11. Current liabilities

	30/6/05 \$000	30/6/04 \$000
Cash book overdraft (unsecured)	126	2,106
Moneys received or receivable for games not drawn at balance date	3,260	2,677
Prize liabilities	22,211	16,790
Trade creditors	5,592	3,027
Payable to Lottery Grants Board	9,397	15,450
Accrued expenses	6,977	9,250
Provision	4,465	2,238
Employee entitlements	540	450
	52,568	51,988

Credit facilities

The Commission had a bank overdraft facility as at 30 June 2005 of \$2,000,000 with Westpac Banking Corporation.

The interest rate on the Commission's bank overdraft was 8.45% per annum.

There were also payroll and general letter of credit facilities amounting to \$253,000 with Westpac Banking Corporation.

Movement in provision

The movement in the provision for restructuring is as follows:

	30/6/05 \$000	30/6/04 \$000
Provision at the beginning of the period	2,238	16
Additional provision made during the period	2,455	2,238
Charged against the provision for the period	(228)	(16)
Provision at the end of the period	4,465	2,238

These costs relate to a substantial reorganisation of the Commission's retail outlets which is to be completed by 31 December 2007.

12. Prize reserve account

	30/6/05 \$000	30/6/04 \$000
Opening balance	11,750	6,198
Amounts transferred based on game sales	13,053	13,614
Interest	2,327	1,808
Unclaimed prizes over twelve months old	11,490	9,019
Transfers to prize pools	(27,652)	(18,889)
	10,968	11,750

13. Long term liabilities

	30/6/05 \$000	30/6/04 \$000
Prize liabilities*	2,013	1,149
Employee entitlements	46	45
	2,059	1,194

* This represents the discounted value of amounts payable one year or more after balance date to prize winners in four Instant Kiwi games.

14. Employee entitlements

	30/6/05 \$000	30/6/04 \$000
Annual leave	489	401
Long-service leave	97	94
Total	586	495
Current liabilities	540	450
Long-term liabilities	46	45
Total	586	495

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

	30/6/05 \$000	30/6/04 \$000
Net surplus after distribution to the New Zealand Lottery Grants Board	7,000	15,000
Add non-cash items:		
Depreciation of fixed assets	2,483	2,096
Add (deduct) movements in working capital items:		
Increase in receivables for current games	(847)	3,376
Increase in trade receivables	(250)	(5)
Increase in accrued interest	(195)	(41)
Increase in prepayments	(318)	(298)
Increase in stock	(1,085)	(594)
Increase in moneys received or receivable for games	583	1,290
Increase in prize liabilities	6,285	(167)
Increase in trade creditors and accrued expenses	206	3,933
Increase in provisions	2,227	2,222
Decrease in payables to New Zealand Lottery Grants Board	(6,053)	12,650
Increase in employee entitlements	91	(131)
Decrease in prize reserve account	(782)	5,552
Less item classified as investing activity:		
Profit on sale of fixed assets	(2,096)	(65)
Net cash inflow from operating activities	7,249	44,818

16. Restrictions on cash and investments

	30/6/05 \$000	30/6/04 \$000
The total restricted amount was:	37,059	27,785
Part of the balance of cash and investments is restricted and may be used only for the payment of prizes.		

17. Related party information

Minter Ellison Rudd Watts have been legal advisers to the Commission since its inception. Mr Charles Chauvel, a partner in Minter Ellison Rudd Watts, was appointed a Commission Member on 24 October 2000. On his appointment Mr Chauvel arranged for internal procedures to be put in place within Minter Ellison Rudd Watts to ensure his separation for the term of his appointment from any further legal work undertaken by his firm for the Commission. He also notified the Commission of his intention to abstain from any discussion or vote as to the provision of legal services to it. Mr Chauvel resigned from the Board on 31 December 2004. In the twelve months to 30 June 2005 Minter Ellison Rudd Watts provided legal services on normal commercial terms to the Commission at a cost of \$330,042 (\$293,821 for the twelve months to 30 June 2004).

There were no other related party transactions.

18. Major budget variations

Successful marketing initiatives, including the revamp of Lotto in August 2004, led to sales for the year exceeding budget by 4.7%.

Operating costs were 4.8% above budget in total, due mainly to additional retail development expenditure. As a result of the above the net surplus exceeded budget by 9.3%.

Directory

Auckland Office

96 New North Road
PO Box 8929, Symonds Street,
Auckland
Telephone 09-356 3800
Facsimile 09-366 1605

Wellington Office

54-56 Cambridge Terrace
PO Box 3145
Wellington
Telephone 04-802 7000
Facsimile 04-385 2787

Christchurch Office

93 Manchester Street
P O Box 27033, Shirley,
Christchurch
Telephone 03-365 7365
Facsimile 03-365 7368

Board Members:

John Goulter DCNZM, FINSTD,
FINSTM, JP
Presiding Member

Paddy Austin PhD (Linguistics)
Deputy Presiding Member

Sally Jo Cunningham PhD (Computer
Science)

Guy Herbert LLB (Hons), Dip TP
Kay McKelvie LLB, MBA

Senior Management:

Trevor Hall
Chief Executive, Auckland

Warren Salisbury
Deputy Chief Executive, Wellington

Quinton Hall
Chief Technology Officer, Auckland

Chris Lyman
General Manager Retail Sales, Auckland

Evan Lawrey
Head of Marketing, Auckland

Helen Morgan-Banda
*Head of Communications and Government Relations,
Wellington*

Website:

www.nzlotteries.co.nz



Introduction of the new corporate identity included a new corporate wardrobe, modelled by (left to right) Kim Slikas, Anna Sweetman, Jonathan Winkworth and Kirsten McMillan.

NZ Lotteries staff as at 30 June 2005

Aaron Benson	Dianna Bassett	Kirsten McMillan	Rene Vega
Aaron Stevens	Eleanor Blakey	Lauren Bruce	Richard McClure
Adam Nicolson	Evan Lawrey	Lee Perry	Rosa Jacobsen
Adrienne Todd	Evette Homan	Liz Knight	Ross McKenzie
Andrew Fell	Felicity Weller	Maria Kerr	Ruth Henderson
Andrew Garnett	Francis Scordino	Marion Nicholls	Sam Lawrence
Andrew Manson	Gary Hosking	Mark Huttley	Sarah Duck
Andrew McLeish	Gary Safe	May Atelia	Shirley Stokes
Andrew Murray	Glenis Beckford	Megan Ching	Simone Flight
Angus Barclay	Helen Morgan-Banda	Melanie Jones	Steve Macaulay
Anita Rushbrooke	Helen Young	Merry Pahetogia	Steve Macgregor
Anna Sweetman	Ian Restall	Molly Lewis	Stuart Howard
Avinesh Bahadur	Jacqui Mason	Mona Hardie	Sue Carpenter
Ben Coney	Jane Vickers	Natalie Pearson	Sue Davey
Brett Cross	Janet Charteris	Natasha Julian	Susan Burtenshaw
Carleen Johnston	Janie Hall	Nichelle Armstrong	Talei Joyce
Catherine McIntyre	Janine Legarth	Nicky Young	Tania Montrose
Carole Dew	Jennifer Shore	Nicola O'Keefe	Terrina Rakete
Charlene Banner	Jenny Harper	Nikkola Mathews	Tim Barrett
Chris Archer	Joan Malcouronne	Paul Firkin	Tini Roomataaroa
Chris Lyman	John Gasson	Peni Niwa	Tony Austin
Chris McBride	Jonathan Winkworth	Peter Anderson	Tony Chaudhary
Christina Sue	Julie Comber	Peter Siversen	Trevor Hall
Clare Crosby	Kane Boardman	Phoebe Dobson	Warren Salisbury
Craig Morrison	Kate Richards	Prashanth Rai	Wayne Pickup
Dana Bethune	Kathleen Andree Wiltens	Quentin Long	Wendy Rayner
Darren McLean	Kathleen Duncan	Quinton Hall	Willie Aiulu
David Hunt	Kim Hampson	Rachel Godwin-Groves	
Dean Tainui	Kim Slikas	Rachel Warner	