

2005 HALF YEAR

for the six months ended 31 December 2004 **REPORT**





2005 HALF YEAR REPORT

for the six months ended 31 December 2004

RESULTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2004

Financial Performance

- Sales for the period were \$305.9 million, \$36.6 million (10.7%) behind the same period last year. The result reflects the revenue volatility caused by Powerball. The first six months of the 2003/2004 financial year benefited from two exceptional Powerball jackpot runs which were statistically abnormal. Sales for the first six months of the 2004/2005 year reflect a more typical jackpotting pattern. In comparison to the first half of 2002/2003, sales were up by \$28.7 million (10.4%).
- The net surplus for the half year amounted to \$61.7 million. This was \$14.7 million (19.2%) behind the same period last year, when Powerball jackpotted to very high levels, but \$8.4 million (15.8%) higher than for the first half of 2002/2003.
- Operating expenses for the half year were \$23 million, \$4.3 million (23%) above last year. This is directly associated with the cost of implementing strategic initiatives such as the changes to Lotto in August and revitalising and expanding our retail network.
- Payments totalling \$54 million were made to the Lottery Grants Board for distribution to fund sporting, arts and community activities around the country. This was \$6 million (12.5%) more than for the same period last year.

Our Products



Lotto sales of \$154 million were 8.6% below the same period last year. Overall sales were impacted by the lack of Powerball jackpots as Lotto and Powerball are linked games. Lotto has performed well since the changes made in August 2004 and sales have been boosted by Triple Dip promotions.



Powerball was won more frequently than in the same period last year. The jackpot exceeded \$5 million on just five weeks compared with sixteen weeks for the same period last year. Reflecting this, sales of \$55.6 million were 32.9% behind last year, but 25.5% ahead of the same period in the 2002/2003 financial year.



Strike sales amounted to \$30.9 million, only 1.3% behind the same period last year. Strike sales were also favourably influenced by our Triple Dip promotions.



Instant Kiwi sales of \$53.3 million were 9.5% ahead of the same period last year. More games, better advertising, and greater point of sale exposure contributed to this result.



Keno sales, at \$11.8 million, were 8.3% ahead of the same period last year, reflecting the introduction of twice-daily Keno in May 2004.

Highlights of the Half Year

A very strong sales performance in December assisted us in achieving our sales and earnings budgets for the six months under review.

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. We have seen weekly sales lift by an average of 10% since the changes.

We made 19 people millionaires, with one player winning \$9.9 million from Lotto First Division and Powerball, the third largest individual prize ever won. There were 55 winners of prizes valued up to \$500,000 in Lotto's Christmas promotion, 21 Winning Wheel winners, averaging \$150,000 per win, and 80 other Triple Dip promotion winners.

A new Lotto advertising campaign was launched with the game changes. It worked well at educating players about the changes, but the brand aspect of the campaign was not as well received.

Last year's Powerball jackpot run was statistically unusual and could not be expected to recur. In the period under review, the longest Powerball jackpot run ended when it was won at \$9 million; the next longest run ended at \$4.5 million.

Sixty-eight new stores were opened, bringing the total to 701 at 31 December. A new-look store design was introduced and 41 existing stores refurbished during this period. Financial assistance is being given for refurbishment.

The majority of the Gambling Act 2003's provisions came into effect on 1 July 2004. As required under the Act, we effectively implemented an increase in the age restriction for Instant Kiwi from 16 to 18 from that date.

Operating costs for the period were higher than for the comparable period last year. This was directly associated with implementing strategic initiatives such as the changes to Lotto and revitalising and expanding our retail network.

Good progress was made in the process of selecting a supplier for the new gaming system, with a short-list developed through a Request for Proposal process. A decision on a supplier is expected in early 2005 and implementation of the new system by mid 2006. Given the critical importance of this system, a decision was taken that our IT operations should be relocated from Wellington, where they have been based since NZ Lotteries inception seventeen years ago. To this end, an Auckland building has been acquired to enable our IT operations to be securely housed going forward. The building will also house the functions that are currently run out of our leased premises in Auckland.

Mr Charles Chauvel, the Deputy Chair, resigned from the board on 31 December due to an increased level of professional commitments being faced in 2005. Mr Chauvel has been on the NZ Lotteries board since October 2000.

Prospects for the Full Year

At this stage we are on track to meet budgeted sales and net profit targets for the full financial year. The final outcome is logically dependent on the ongoing success of our promotions and also Powerball's jackpotting behaviour.

We appreciate the large number of New Zealanders who support our products every week. We also thank our retailers and staff who have maximised sales and maintained service levels. This has been achieved while accommodating the successful introduction of major changes to Lotto and to our retail network.

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE SIX MONTHS ENDED 31 DECEMBER 2004

	NOTE	31/12/04 6 Months \$000	% of Sales	31/12/04 Budget \$000	% of Sales	31/12/03 6 Months \$000	% of Sales	30/6/04 12 Months \$000	% of Sales
Sales (including GST)	2	305,931	100.0%	303,600	100.0%	342,504	100.0%	628,819	100.0%
Cost of sales	3	225,380	73.7%	224,778	74.0%	251,191	73.3%	461,399	73.4%
		80,551	26.3%	78,822	26.0%	91,313	26.7%	167,420	26.6%
Other revenue	4	4,126	1.3%	3,227	1.1%	3,802	1.1%	7,888	1.3%
		84,677	27.7%	82,049	27.0%	95,115	27.8%	175,308	27.9%
Operating expenses	5	23,011	7.5%	24,358	8.0%	18,684	5.5%	41,858	6.7%
Net surplus		61,666	20.2%	57,691	19.0%	76,431	22.3%	133,450	21.2%
Distribution to the New Zealand Lottery Grants Board		54,000	17.7%	54,000	17.8%	48,000	14.0%	118,450	18.8%
Net surplus after distribution to the New Zealand Lottery Grants Board		7,666	2.5%	3,691	1.2%	28,431	8.3%	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 SIX MONTHS ENDED 31 DECEMBER 2004

	31/12/04 6 Months \$000	31/12/04 Budget \$000	31/12/03 6 Months \$000	30/6/04 12 Months \$000
Net surplus for the period after distribution to the New Zealand Lottery Grants Board	7,666	3,691	28,431	15,000
Total recognised revenues and expenses for the period	7,666	3,691	28,431	15,000
Movements in equity for the year	7,666	3,691	28,431	15,000
Equity at the beginning of the period	22,910	24,257	7,910	7,910
Equity at the end of the period	30,576	27,948	36,341	22,910

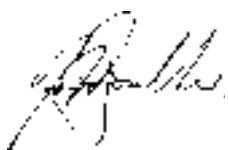
The accompanying notes form part of this statement and should be read in conjunction with it.

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2004

	NOTE	31/12/04 \$000	31/12/03 \$000	30/6/04 \$000
ASSETS EMPLOYED				
Investments	6	74,343	76,615	73,814
Current assets	7	11,984	11,669	4,870
Fixed assets	8	8,781	8,117	9,158
Total assets employed		95,108	96,401	87,842
FUNDS EMPLOYED				
Current liabilities	9	50,459	46,590	51,988
Prize reserve account	10	12,142	12,198	11,750
Long term liabilities	11	1,931	1,272	1,194
Equity		30,576	36,341	22,910
Total funds employed		95,108	96,401	87,842

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



John Goulter DCNZM, JP
PRESIDING MEMBER



Trevor Hall
CHIEF EXECUTIVE

03 February 2005

STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2004

	NOTE	31/12/04 6 Months \$000	31/12/03 6 Months \$000	30/6/04 12 Months \$000
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash was provided from:				
Sale of game tickets		290,348	325,144	603,211
Interest received		2,008	1,536	4,004
Net GST received		3,130	2,468	(643)
Other receipts		3,141	2,940	5,699
Cash was applied to:				
Prize payments		165,738	174,771	344,971
Lottery duty		15,674	17,479	34,466
Retailers' commission		21,400	23,987	44,479
Other payments		26,892	19,230	37,737
Payments to the New Zealand Lottery Grants Board		65,450	47,800	105,800
Net cash inflow from operating activities	12	3,473	48,821	44,818
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash was provided from:				
Sale of fixed assets		13	178	191
Cash was applied to:				
Purchase of fixed assets		1,785	1,146	2,590
Net cash outflow from investing activities		(1,772)	(968)	(2,399)
Net increase (decrease) in cash held		1,701	47,853	42,419
Cash balance at the beginning of the period		72,547	30,128	30,128
Cash balance at the end of the period		74,248	77,981	72,547
Reconciliation of the cash balance at the end of the period with Statement of Financial Position items				
Bank and cash deposits		73	2,993	839
Cash book overdraft		(168)	(1,627)	(2,106)
Investments		74,343	76,615	73,814
Cash balance at the end of the period	13	74,248	77,981	72,547

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

STATEMENT OF COMMITMENTS

AS AT 31 DECEMBER 2004

	31/012/4 \$000	31/12/03 \$000	30/6/04 \$000
Capital commitments approved and contracted *	6,263	-	240
Non-cancellable operating lease commitments, payable:			
Not later than one year	345	338	329
Later than one year and not later than two years	301	338	329
Later than two years and not later than five years	8	310	136
Total non-cancellable operating lease commitments	654	986	794
Other non-cancellable contracts			
Not later than one year	3,909	2,791	3,938
Later than one year and not later than two years	1,437	1,955	2,205
More than two years and less than five years	399	4,888	1,361
Total other non-cancellable contracts	5,745	9,634	7,504
Total commitments	12,662	10,620	8,538

Included in the above table are non-cancellable operating leases for the Commission's Auckland and Christchurch offices as follows:

- The Auckland lease runs until December 2006, and has a renewal option for a further three years. The annual rental and estimated share of expenses is \$337,745. (The same total applied at 31 December 2003 and 30 June 2004.)
- The Christchurch lease runs until July 2007, and has a renewal option for a further three years. The annual rental and estimated share of expenses is \$16,265. (There was no Christchurch lease commitment at 31 December 2003 or 30 June 2004.)
- * On 23 December 2004 the Commission entered into a conditional contract for the purchase of a property in Auckland for a consideration of \$6,200,000. The contract becomes unconditional on 14 January 2005.

STATEMENT OF CONTINGENT LIABILITIES

AS AT 31 DECEMBER 2004

There were no significant contingent liabilities at 31 December 2004, 31 December 2003 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 Gambling Act 2003 and the Public Finance Act 1989.

Audit opinion

These interim financial statements have not been audited. The comparative figures have been extracted from published financial statements.

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. In particular they are prepared under FRS - 24. They should be read in conjunction with the previous annual financial report.

Budget figures

The annual budget is approved prior to the beginning of the financial year by the Minister of Internal Affairs. The budget figures set out in these financial statements represent the portion of the annual budget figures allocated by the Commission to the first six months of the financial year.

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.

Fixed assets and depreciation

All fixed assets are initially recorded at cost. The net current fair 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
Personal computers and associated equipment	3 years
Leasehold improvements	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

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 Lotto 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 paid
- goods and services tax
- fringe benefit tax

Changes in accounting policies

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

2 Sales

	31/12/04 6 Months \$000	31/12/04 Budget \$000	31/12/03 6 Months \$000	30/6/04 12 Months \$000
Lotto, Lotto Strike and Lotto Powerball	240,786	238,600	282,941	512,523
Instant Kiwi	53,338	51,770	48,651	94,233
Keno	11,807	13,230	10,912	22,063
Sales including GST	305,931	303,600	342,504	628,819
GST	15,253	14,877	17,275	31,632
Sales net of GST	290,678	288,723	325,229	597,187

3 Cost of sales

	31/12/04 6 Months \$000	31/12/04 Budget \$000	31/12/03 6 Months \$000	30/6/04 12 Months \$000
GST	15,253	14,877	17,275	31,632
Lottery duty	16,826	16,698	18,838	34,585
Problem gaming levy	104	115	-	-
Retailers' commission	21,423	21,252	24,019	44,081
Prizes paid and payable	163,340	163,475	181,622	333,656
Prize reserve fund	6,298	6,290	7,549	13,614
Ticket costs	2,136	2,071	1,888	3,831
	225,380	224,778	251,191	461,399

4 Other revenue

	31/12/04 6 Months \$000	31/12/04 Budget \$000	31/12/03 6 Months \$000	30/6/04 12 Months \$000
Telecommunications and terminal maintenance cost recovery	1,947	1,980	2,013	3,928
Franchise and establishment fees	406	500	765	1,302
Interest	1,385	536	796	2,237
Other	388	211	228	421
	4,126	3,227	3,802	7,888

5 Operating expenses

	31/12/04 6 Months \$000	31/12/04 Budget \$000	31/12/03 6 Months \$000	30/6/04 12 Months \$000
Operating expenses include:				
Audit fees for conducting the external audit	42	40	36	78
Audit fees for scrutineering lottery draws	31	31	31	72
Audit fees for other services	9	-	-	23
Commission members' fees	59	44	47	101
Depreciation of fixed assets	1,112	1,025	868	2,096
Interest	10	3	6	10
Leasing and renting costs	110	111	102	204

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

	31/12/04 6 Months \$000	31/12/03 6 Months \$000	30/6/04 12 Months \$000
On cost:			
Gaming computers and associated equipment	611	341	1,048
Personal computers and associated equipment	156	166	329
Leasehold improvements	52	57	114
Draw equipment	27	19	38
Furniture and fittings	19	18	40
Motor vehicles	91	89	178
Office equipment	26	51	93
Building additions (Cambridge Terrace, Wellington)	9	6	15
	991	747	1,855
On valuation:			
Building (Cambridge Terrace, Wellington)	121	121	241
	1,112	868	2,096

6 Investments

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

	31/12/04 Carrying amount \$000	31/12/04 Fair value \$000	31/12/04 Purchase Yield %	31/12/03 Carrying amount \$000	31/12/03 Fair value \$000	31/12/03 Purchase Yield %	30/6/04 Carrying amount \$000	30/6/04 Fair value \$000	30/6/04 Purchase Yield %
On-call	5,352	5,352	6.50%	10,713	10,713	5.00%	4,623	4,623	5.75%
Maturing within one year	68,991	68,958	6.67%	65,902	65,887	5.33%	69,191	69,163	6.04%
	74,343	74,310	6.65%	76,615	76,600	5.29%	73,814	73,786	6.03%

The weighted average effective interest rates were:

31/12/04	31/12/03	30/6/04
6.65%	5.29%	6.03%

7 Current assets

	31/12/04 \$000	31/12/03 \$000	30/6/04 \$000
Bank and cash deposits	73	2,993	839
Due from retailers for current games	7,065	5,208	680
Trade receivables	249	120	65
Accrued interest	657	316	226
Prepayments	1,851	1,793	1,565
Instant Kiwi ticket stock	1,698	1,108	1,392
Stock	391	131	103
	11,984	11,669	4,870

8 Fixed assets

	Gross	Accumulated	Book Value	Gross	Accumulated	Book Value	Gross	Accumulated	Book Value
	31/12/04	31/12/04	31/12/04	31/12/03	31/012/03	31/12/03	30/6/04	30/6/04	30/6/04
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
At cost :									
Gaming computers and associated equipment	20,651	18,478	2,173	18,130	17,175	955	19,278	17,868	1,410
Personal computers and associated equipment	1,499	1,199	300	1,520	1,093	427	1,398	1,088	310
Leasehold improvements	1,988	1,769	219	1,986	1,660	326	1,988	1,717	271
Draw equipment	1,119	982	137	1,007	937	70	1,046	956	90
Furniture and fittings	1,510	1,211	299	1,433	1,131	302	1,504	1,192	312
Motor vehicles	725	304	421	689	144	545	749	233	516
Office equipment	1,227	1,095	132	1,455	1,258	197	1,353	1,197	156
Building additions (Cambridge Terrace, Wellington)	247	23	224	227	6	221	247	15	232
	28,966	25,061	3,905	26,447	23,404	3,043	27,563	24,266	3,297
At valuation :									
Land (Cambridge Terrace, Wellington)	1,000	-	1,000	1,000	-	1,000	1,000	-	1,000
Building (Cambridge Terrace, Wellington)	4,222	424	3,798	4,222	181	4,041	4,222	302	3,920
	5,222	424	4,798	5,222	181	5,041	5,222	302	4,920
Work in progress:									
Gaming computers and associated equipment	48	-	48	-	-	-	908	-	908
Personal computers and associated equipment	1	-	1	8	-	8	5	-	5
Leasehold improvements	7	-	7	2	-	2	-	-	-
Draw equipment	-	-	-	-	-	-	28	-	28
Furniture and fittings	-	-	-	2	-	2	-	-	-
Motor vehicles	22	-	22	-	-	-	-	-	-
Office equipment	-	-	-	-	-	-	-	-	-
Building	-	-	-	21	-	21	-	-	-
	78	-	78	33	-	33	941	-	941
	34,266	25,485	8,781	31,702	23,585	8,117	33,726	24,568	9,158

The Commission's freehold land and building are stated at their 31 March 2003 valuation as determined by an independent registered valuer, TelferYoung (Wellington) Ltd, less accumulated depreciation in the case of the building. TelferYoung (Wellington) Ltd assessed the current market value as \$5.25 million as at 31 March 2003 (\$5.10 million as at 31 March 2000). The valuers have confirmed that the 31 March 2003 valuation remained current as at 31 December 2004.

The government valuation of the land and building at 1 September 2004 was \$6.0 million comprising land (\$2.0 million) and improvements (\$4.0 million).

9 Current liabilities

	31/12/04 \$000	31/12/03 \$000	30/6/04 \$000
Cash book overdraft (unsecured)	168	1,627	2,106
Moneys received or receivable for games not drawn at balance date	10,563	1,787	2,677
Prize liabilities	18,801	26,800	16,790
Trade creditors	6,691	5,897	3,027
Accrued expenses	7,488	7,044	9,250
Employee entitlements	525	435	450
Provision	2,223	-	2,238
Payable to the New Zealand Lottery Grants Board	4,000	3,000	15,450
	50,459	46,590	51,988

Credit Facilities

The Commission has a bank overdraft facility as at 31 December 2004 of \$2,000,000 with Westpac Banking Corporation.

The interest rate on the Commission's bank overdraft was 8.20% per annum.

There were also payroll and general letter of credit facilities amounting to \$203,000 with Westpac Banking Corporation.

Movement in provision

The movement in the provision for restructuring is as follows:

	31/12/04 6 Months \$000	31/12/03 6 Months \$000	30/6/04 12 Months \$000
Provision at the beginning of the period	2,238	16	16
Additional provision made during the period *	-	-	2,238
Charged against the provision for the period *	(15)	(5)	(16)
Reversal of unused portion of provision	-	(11)	-
Provision at the end of the period	2,223	-	2,238

* These costs relate to a substantial reorganisation of the Commission's franchised outlets which is to be completed by 31 December 2006.

10 Prize reserve account

	31/12/04 \$000	31/12/03 \$000	30/6/04 \$000
Opening balance	11,750	6,198	6,198
Amounts transferred based on game sales	6,298	7,549	13,614
Interest	1,054	871	1,808
Unclaimed prizes over twelve months old	7,173	5,973	9,019
Transfers to prize pools	(14,133)	(8,393)	(18,889)
	12,142	12,198	11,750

11 Long term liabilities

	31/12/04 \$000	31/12/03 \$000	30/6/04 \$000
Prize liabilities *	1,931	1,272	1,149
Employee entitlements	-	-	45
Total	1,931	1,272	1,194

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

12 Reconciliation of net cash flow from operating activities with net surplus

	31/12/04 \$000	31/12/03 \$000	30/6/04 \$000
Net surplus per Statement of Financial Performance	7,666	28,431	15,000
Add non-cash items:			
Depreciation of fixed assets	1,112	868	2,096
Revaluation of land and building	-	-	-
Add (deduct) movements in working capital items:			
Increase in receivables for current games	(6,385)	(1,152)	3,376
Increase in trade receivables	(185)	(45)	(5)
Increase in accrued interest	(431)	(131)	(41)
Increase in prepayments	(286)	(526)	(298)
Increase in stock	(594)	(338)	(594)
Increase in moneys received or receivable for games	7,886	400	1,290
Increase in prize liabilities	2,793	9,966	(167)
Increase in trade creditors	2,931	5,206	6,155
Increase in employee entitlements	36	15	(131)
Increase in prize reserve account	392	6,000	5,552
Increase in New Zealand Lottery Grants Board payables	(11,450)	200	12,650
Less item classified as investing activity:			
Loss on sale of fixed assets	(12)	(73)	(65)
Net cash inflow from operating activities	3,473	48,821	44,818

13 Restrictions on cash and investments

Part of the balance of cash and investments is restricted and may be used only for the payment of prizes.

	31/12/04 \$000	31/12/03 \$000	30/6/04 \$000
The total restricted amount is:	34,001	35,014	27,785

14 Related party information

Minter Ellison Rudd Watts have been a major legal adviser 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 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. In the six months to 31 December 2004, Minter Ellison Rudd Watts provided legal services on normal commercial terms to the Commission at a cost of \$111,178 (\$148,473 to 31 December 2003 and \$293,821 to 30 June 2004).

There were no other related party transactions.

15 Major budget variations

The net surplus for the half year amounted to \$61.67 million, 6.9% above budget.

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Presiding Member

Dr Sally Jo Cunningham
Guy Herbert
Kay McKelvie

Senior Management

Trevor Hall
Chief Executive, Auckland

Warren Salisbury
Deputy Chief Executive, Wellington

Quinton Hall
Chief Technology Officer, Wellington

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