

annual report

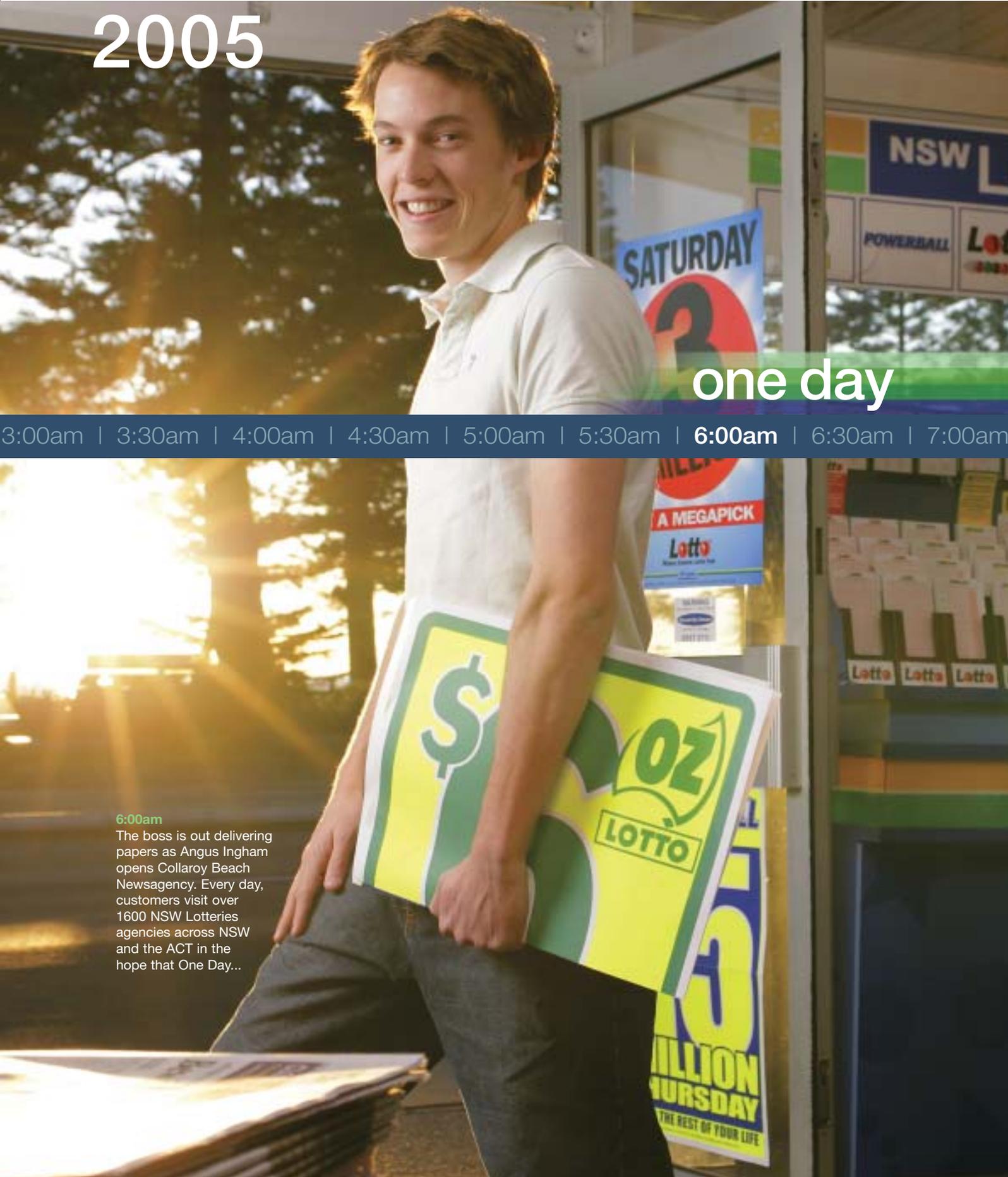
2005

one day

3:00am | 3:30am | 4:00am | 4:30am | 5:00am | 5:30am | 6:00am | 6:30am | 7:00am

6:00am

The boss is out delivering papers as Angus Ingham opens Collaroy Beach Newsagency. Every day, customers visit over 1600 NSW Lotteries agencies across NSW and the ACT in the hope that One Day...



About this report

This report provides an account of the operations of NSW Lotteries Corporation for the financial year ended 30 June 2005.

The report analyses our achievements against the performance measures and targets in the NSW Lotteries Business Plan and the annual Statement of Corporate Intent negotiated with the Corporation's Shareholder Ministers. This annual report was produced in accordance with the requirements of the Annual Reports (Statutory Bodies) Act 1984 and complies with all relevant annual reporting statutory requirements and disclosure guidelines.

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Letter to the Shareholder Ministers

The Hon. Michael Costa, MLC
Minister for Finance

The Hon. John Della Bosca, MLC
Special Minister of State

Dear Gentlemen

Report of Performance for the Year Ended 30 June 2005

We submit the NSW Lotteries Corporation's Annual Report for the year ended 30 June 2005 for presentation to Parliament.

The Annual Report has been prepared in accordance with the relevant provisions of the State Owned Corporations Act 1989 and the Annual Reports (Statutory Bodies) Act 1984.

We are pleased to advise that the Auditor-General of New South Wales has certified the Corporation's Financial Report, that forms part of the Annual Report, without qualification.



John Bagshaw
Chairman



Michael Howell
Chief Executive Officer

Results

As a State Owned Corporation, NSW Lotteries is accountable to its Shareholder Ministers for its commercial performance. A Statement of Corporate Intent is negotiated annually between NSW Lotteries and the Shareholder Ministers and sets the key performance measures and targets to be achieved by the Corporation each financial year. Key financial results for 2004/2005 follow:

Total Revenue to NSW Government (\$M)

98/99	308.0
99/00	306.5
00/01	291.8*
01/02	302.4**
02/03	329.3**
03/04	326.8*
04/05	330.0*

* Excludes GST

By agreement between the Commonwealth and State Governments, with the introduction of the GST, the rate at which NSW Lotteries pays duty to the NSW Government was reduced to compensate for the GST payable to the Commonwealth Government.

** Included a Special Dividend of \$10m

Product Sales (\$M)

98/99	963.2
99/00	946.0
00/01	1,010.7*
01/02	1,020.8*
02/03	1,092.9*
03/04	1,108.9*
04/05	1,116.0*

* Includes GST

Results for Fiscal 2005

Performance Measure	Target	Result
Sales	\$1,135.00 m	\$1,115.97 m
Profit from Ordinary Activities Before Significant Items and Government Tax Equivalent	\$48.00 m	\$48.26 m
NSW Government Duty	\$287.16 m	\$281.75 m
Dividend and Tax Equivalent Payments	\$48.00 m	\$48.26 m
Total	\$335.16 m	\$330.01 m

Results for 7 Years at a Glance

Category	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05
Sales (\$M)**	963.2	946.0	1,010.7**	1,020.8**	1,092.9**	1,108.9**	1,116.0**
Total NSW Government Revenue (\$M) ¹	308.0	306.5	332.4**	343.6**	373.6**	371.8**	375.8**
Return on Average Shareholder Equity (%)	64	50	55	64	90	95	105
Return on Corporate Assets (%)	36	31	32	35	44	47	48
Selling System Up-time (%)	99.99	100.00	99.96	99.99	99.99	99.99	100.00
Average Staff Number	209	203	205	201	195	183	176
Sales per Employee (\$M)	4.6	4.7	4.9	5.1	5.6	6.1	6.3

** Includes GST

¹ Total NSW Government Revenue includes Duty, Dividends and Tax Equivalent payments, and excludes payments to the Australian Capital Territory Government

The Year in Review



Another year of record sales...

For the fifth year in a row, NSW Lotteries achieved sales of more than one billion dollars.

Sales increased by \$7.1 million to a new record of \$1,116 million. NSW Lotteries has broken the sales record in 14 out of the last 15 financial years.

...and record commission.

Our retail network enjoyed record revenues from the sale of lottery products, reflecting our conscious efforts to improve their rate of return from selling lottery products. While lottery sales increased by 0.6 per cent, total income earned by agents went up by 6.9 per cent to more than \$79 million.

A profitable, efficient business...

Although total sales fell just short of target mainly due to an unusually low run of Powerball jackpots, the Corporation was still able to post a record operating profit of \$48.3 million before significant items and Government tax equivalent, exceeding the target of \$48 million. This excellent result was achieved through sound management of financial assets and tight control of operating costs.

...with lots of happy players,...

It was a good year for prizes too, with players receiving more than \$692.1 million in prize money during the year.

Players benefited from a range of service improvements to make purchasing our games, checking results and claiming prizes fast, secure and easy.

We introduced more game panels on our autopick entries in response to players wishing to cover more combinations without the need for multiple entries, especially during big draws.

We made checking results easier through improved navigation on our website, and an enhanced email service. Customers can even receive the latest results direct to their mobile telephones through our new SMS Results Service.

...served by a first class retail network...

Over the year, our customers were able to rely on an excellent service provided by well-trained, friendly agents using an efficient and reliable gaming system.

Our technology performed at the top of the industry, with 100% system uptime, and 99.96% availability of the telecommunication network linking our 1,600 retail locations across NSW and the ACT.

Combined with continual improvements in the performance of our Altura sales terminal, it helped us to receive a 95% level of satisfaction rating from our agents in our annual survey.

... backed by a skilled and motivated team.

It goes without saying that the Corporation's success depends upon having the right mix of skilled and motivated staff.

With this in mind, this year we developed our first formal Workforce Plan to identify the strategic challenges facing NSW Lotteries in the areas of employee knowledge, skills and expertise, and to formulate appropriate strategies to address these issues.

We also completed a major Occupational Health & Safety review of equipment and work layout at our Lidcombe Distribution Centre, to ensure that safety and staff welfare are top priorities.

A new Salaries Award was negotiated, which will give staff improved salaries, benefits and conditions for the next three years and beyond.

Looking forward to next year...

A new year brings new challenges and opportunities. Once again we are aiming for an ambitious sales target and a new record.

We are confident of achieving this by making a number of changes to our games aimed at enhancing their competitive positions and building on their unique strengths.

We will also be developing options for the future replacement of the on-line gaming system to ensure that we continue to provide the highest possible standards of reliability for our customers and agents, and have a flexible technical platform that will support our future business needs.

As each year goes by, our sales results are more and more reliant on the attraction of high jackpots. This is not a "controllable" factor and depends very much on chance to deliver the predicted number and range of jackpots each year.

While we continue to be driven by sales, like any other successful commercial enterprise, we will also focus on our profitability and costs.

Most importantly, we will continue to ensure that we deliver a quality service to our customers and agents to maintain our position as the number one lottery operator in Australia.

John Bagshaw
Chairman

Michael Howell
Chief Executive Officer

Key Facts 2004/2005

	Sales	Game Matrix	Prizes Won in NSW	No. of Millionaires & 1st Prize Winners	Total No. Winners	Largest First/Jackpot Prize
Lotto	\$218.1m	6 from 45	\$133.5m	16 millionaires 102 Division One winners	3,238,353	\$1m
Lotto Strike	\$15.2m	First 4 Lotto numbers	\$9.1m	1 millionaire 2 Strike 4 winners	1,298,939	\$2m
Saturday Lotto	\$262.0m	6 from 45	\$171.4m	23 NSW millionaires 78 NSW Division One winners	2, 812,456	\$31m
OZ Lotto	\$103.0m	6 from 45	\$57.1m	8 NSW millionaires 8 NSW Division One winners	486,443	\$15m
Powerball	\$238.2m	5 from 45 & 1 from 45 drawn by a 2nd machine	\$146.5m	12 NSW millionaires 12 NSW Division One winners	3,820,264	\$23.209m
Instant Scratchies	\$167.4m	Game Pricepoints: \$1 \$2 \$2.50 \$3 \$4 \$5 \$10	\$106.4m	Number of Game Top Prizes: \$1 - 31 \$2 - 31 \$2.50 Made For Life - 3 \$2.50 - 6 \$3 - 18 \$4 Win for Life - 4 \$4 - 2 \$5 - 12 \$10 - 3	22,632,637 (approx) total prizes paid	\$1 - \$50k \$2 - \$100k \$2.50 MFL - \$500k \$2.50 - Holden VZ Monaro \$3 - \$150k \$4 WFL - \$1m \$4 - \$200k \$5 - \$200k \$10 - \$500k
Lucky Lotteries	\$105.4m	\$2 Jackpot Lottery - 200,000 tickets \$5 Jackpot Lottery - 140,000 tickets	\$63.5m	232 x 1st Prize winners 3 x \$2 Jackpot Lottery millionaires 18 x 1st Prize winners 1 x \$5 Jackpot Lottery millionaire	10,147 Prizes in every \$2 Jackpot Lottery draw 12,880 Prizes in every \$5 Jackpot Lottery draw	\$7.025m Jackpot won in February 2005 \$3.55m Jackpot won in March 2005
6 From 38 Pools	\$6.7m	6 from 38	\$4.6m	11 Division One winners	86,083	\$1.350m
Total	\$1,116.0		\$692.1m			

The Year in Brief

Objective	Performance Measure	Target	Result
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OUR PLAYERS

01

Product Development

To increase sales

Sales

\$1,135m

\$1,116 m

Player Services

To ensure our products and services meet players' expectations

Customer Satisfaction Survey

Not scheduled for 2004/05

No. of Player complaints

<240

126

Customer Hotline calls answered within 30 seconds

90%

92%

Responsibility

To be recognised as a Responsible gaming operator

Compliance with the Corporation's Responsible Gaming Package

100%

100%

OUR BUSINESS

02

Retail Network

To ensure our service to agents meets their needs

Agent Satisfaction Survey

90%

95%

Agent Hotline calls answered within 30 seconds

90%

92%

Gaming System Availability

99.99%

100%

OUR SHAREHOLDERS

03

Shareholder Value

To continually increase Shareholder value by improved business performance

Duties paid to Governments (\$m)

\$292.84m

\$287.80m

Profit from Ordinary Activities before Significant Items and Government Tax Equivalent (\$m)

\$48.00m

\$48.26 m

Return on Average Shareholder Equity

104.7%

105.3%

OUR STAFF

04

Working Environment

To ensure our workforce is able to respond to future business needs

Staff Turnover

<10%

7.33%

Days sick per employee

5

5.1

Highlights

- Record sales totalled \$1,116 million (GST inclusive) - \$7.1 million (or 0.6%) up on previous year
- Prizes totalled \$692.1 million
- Combined turnover for Lotto style games of \$836.5 million - \$22.4 million (or 2.8%) up on previous year
- Instant Scratchie sales of \$167.4 million - \$1.2 million (or 0.7%) up on previous year
- Lucky Lotteries sales of \$105.4 million - \$16.5 million (or 13.5%) down on previous year
- 6 from 38 Pools sales of \$6.7 million - similar to previous year
- More than 445,000 calls were received through the Call Centre
- www.nswlotteries.com.au attracted 4,882,140 user sessions during the year – over 50% up on the previous year
- Nearly 1 million players benefited from the protection and additional services provided by their Players Club membership
- The Corporation worked to ensure that there were no negative impacts from the sale and promotion of its range of products
- NSW Lotteries' comprehensive Responsible Gaming policies met legislative requirements
- NSW Lotteries contributed to a review of the Australian Lotteries Industry Code of Practice
- Responsible Gaming training sessions were conducted for all new agents
- Territory Managers visited all agencies in NSW and the ACT to ensure that retailers understood, and complied with, various responsible gaming obligations

- 1,472 on-line and 132 Instant Scratchies retail outlets
- Record commission on product sales paid to agents of \$79.1 million - \$5 million (or 6.9%) up on previous year
- Almost three-quarters of the agency network covered by Business Plans designed to improve performance
- Over 11,000 visits to agencies by Territory Managers
- Nearly 60% of the total network in the agent reward and recognition program 'Top Shop'
- Close to 1,000 agencies showcased the new Retail Image
- Over 1,000 promotions at key retail outlets
- Close to 1,400 agents and staff trained in business management and customer service skills

- Total revenues of \$375.83 million were paid/payable to the NSW Government in the form of duties, tax equivalents, dividends and GST
- Employee efficiency, as measured by total sales per employee - increased by 3%, up from \$6.1 million to \$6.3 million
- Sales per employee up 37% over the last six years

- A draft Workforce Plan was developed for implementation during 2005/06
- A new Salaries, Allowances and Conditions of Employment Award was negotiated and certified with the Industrial Relations Commission
- Occupational Health and Safety (OH&S) training was conducted for managers, supervisors and staff

Outlook

- Planning for another year of record sales and record prizes
- Strong sales for Lotto style games
- Game changes will enhance Monday and Wednesday Lotto and OZ Lotto
- Powerball jackpots anticipated to better reflect probability
- Seeking to retain existing customer base while attracting new players
- No new games – focus will be on enhancing current portfolio
- Continual improvement to service delivery
- Building on our well-established retail network by identifying new retail outlets in high traffic areas, and exploring alternative distribution channels such as the Internet
- We will continually refine our Responsible Gaming Program to ensure it meets regulatory requirements and encourages the responsible promotion and play of NSW Lotteries' products

- Seeking to deliver another year of record commissions with better commission structures incorporated in game changes wherever possible
- New owners will be trained in technical, business and sales skills to ensure they provide the best possible service to our players

- Aiming for another ambitious sales target and record return to our owner – the Government of NSW
- Changes to our games will enhance their competitive positions and build on their unique strengths
- While we continue to be driven by sales, like any other successful commercial enterprise we will also focus on our profitability and costs
- Jackpots will be vital - this is not a "controllable" factor and depends very much on chance to deliver the predicted number and range of jackpots each year

- Workforce planning is well advanced as a key element of our corporate strategic management framework
- We will develop skills to meet the future needs of both the Corporation and its employees

What We Do



Our Charter

As the leading lottery operator in Australia, and only Government-owned gaming and wagering operator in New South Wales, NSW Lotteries has a charter to:

- Successfully develop, promote, conduct and otherwise participate in any lawful forms of gambling and gambling-related activities;
- Be a successful business and, to this end:
 - to operate at least as efficiently as any comparable businesses;
 - to maximise the net worth of the State's investment in the Corporation;
 - to be a successful participant (whether directly or indirectly) in any other business or activity that the Corporation determines is, or may be, of sound commercial benefit to the Corporation;
- Exhibit a sense of social responsibility by having regard to the interests of the community in which it operates and by endeavouring to accommodate these interests if it is possible to do so;
- Exhibit a sense of responsibility towards regional development and decentralisation in the way in which the Corporation operates.

Our Games

The Corporation is licensed to conduct these games in New South Wales and the Australian Capital Territory:

- Lotto (drawn Monday, Wednesday and Saturday)
- Lotto Strike (drawn Monday, Wednesday and Saturday)
- Powerball (drawn Thursday)
- OZ Lotto (drawn Tuesday)
- Instant Scratchies
- Lucky Lotteries (drawn most weekdays)
- Lucky 6 From 38 Pools (drawn Saturdays)

Saturday Lotto, Powerball, OZ Lotto and 6 From 38 Pools are national games operated in conjunction with other Australian lottery operators. A network of 1,600 small businesses retail NSW Lotteries games to over 2 million customers each week in NSW and the ACT.

Vision, Mission & Values

Our Vision defines how we want to be viewed by our stakeholders; our Mission identifies the reason for our existence and the nature of our business; and our Values emphasise the ethical and professional characteristics of the organisation and our responsibilities in achieving our commercial objectives.

Vision

We will continue to be the leading lottery operator in Australia.

Mission

We contribute to the community of NSW by maximising the return to Government through providing quality lottery products and services.

Values

In all our activities we will:

- Operate with integrity
- Provide excellent service to players
- Value the relationship with our retailers
- Recognise the contributions of our staff
- Continuously improve the way we operate
- Maintain a commercial focus

Business Planning

NSW Lotteries operates in a uniquely dynamic and challenging industry and its business planning process seeks to identify the major issues that have the potential to impact over a three-year period.

A plan is then developed against the corporate Vision, Mission and Values to address these issues and ensure we achieve our objectives and targets.

Strategic Imperatives for fiscal 2005

For fiscal 2005, we identified four aspects of the business that were imperative to the achievement of our goals. These four areas were:

- Our Players
- Our Business
- Our Shareholders
- Our Staff

Balanced Scorecard for Fiscal 2005

The Business Plan incorporates an integrated set of measures, with strategies, actions and targeted outcomes that are continually reviewed and refined to ensure we are monitoring the critical aspects of business performance.

Our performance on each of the corporate objectives is detailed later in this report, with a snapshot of results below:

Objective	Measure	Target	Result	Indicator
Our Players				
To increase sales	Sales ¹	\$1,135 m	\$1,116 m	X
To ensure our products and services meet players' expectations	Customer Satisfaction Survey ²	Not scheduled in fiscal 2005	Not scheduled in fiscal 2005	N/A
	No. of complaints from players	<240	126	✓
	Customer Hotline calls answered within 30 seconds	90%	92%	✓
To be recognised as a Responsible Gaming operator	Compliance with the Corporation's Responsible Gaming package	100%	100%	✓
Our Business				
To ensure our service to agents meets their needs	Agent Satisfaction Survey	90%	95%	✓
	Agent Hotline calls answered within 30 seconds	90%	92%	✓
	Gaming System Uptime	99.99%	100%	✓
Our Shareholders				
To continually increase Shareholder value by improved business performance	Duties paid to Governments ³	\$292.84m	\$287.80m	X
	Profit from ordinary activities before significant items and Government Tax Equivalent	\$48m	\$48.26m	✓
	Return on Average Shareholder Equity	104.7%	105.3%	✓
	Operating Expenses as % of sales	6.01%	5.91%	✓
	Operating Profit as % of sales	4.23%	4.32%	✓
Our Staff				
To ensure our workforce is able to respond to future business needs	Staff turnover	<10%	7.33%	✓
	Days sick per employee ⁴	5	5.1	X

Note 1. Total sales were \$19 million (or 1.7%) below target, mainly due to an unfavourable run of Powerball jackpots.

Note 2. The Customer Satisfaction Survey is conducted every second year.

Note 3. Duty paid was below target in proportion with the sales figure (see Note 1).

Note 4. The result marginally exceeded target due to health issues of a small number of staff.

Corporate Governance

Earning the trust of players is of fundamental importance for a successful lottery, and NSW Lotteries operates within a strict framework of regulation and corporate governance to ensure that its reputation and integrity is beyond question.

NSW Lotteries is a State Owned Corporation, established under the provisions of the NSW Lotteries Corporatisation Act 1996. The Corporation is licensed by the NSW Government to sell lottery games under the Public Lotteries Act 1996. The licences fall due for renewal on 1 July 2007.

The Corporation's key stakeholders are:

- Two Shareholder Ministers: The Hon. Michael Costa, MLC, Minister for Finance, and The Hon. John Della Bosca, MLC, Special Minister of State. These Ministers represent the NSW Government and are responsible for protecting the interests of the Government;
- The Portfolio Minister: The Hon. Grant McBride, MP, Minister for Gaming and Racing, who is responsible for establishing and managing the regulatory framework governing the Corporation's lottery activities; and
- The NSW Treasury, which reviews corporate performance on behalf of the Shareholder Ministers.

The separation of the Shareholder Ministers' role from that of the Regulator is a key pillar of the Corporatisation model adopted in New South Wales. It is intended to provide clear lines of accountability for the Corporation's commercial performance.

Representatives of the NSW Lotteries Board meet regularly with the Shareholder and Portfolio Ministers to discuss the Corporation's performance and any other significant business issues which may arise during the course of the year.

Role of the NSW Lotteries Board

The NSW Lotteries Board is accountable to the Shareholder Ministers and has been established to provide effective leadership, direction and oversight to the Corporation. There are six non-executive Directors on the Board who are appointed by the Shareholder Ministers. The Chief Executive Officer is appointed by the non-executive Directors after consultation with the Shareholder Ministers.

The Board's corporate governance functions include:

- Providing strategic direction;
- Validating, approving and monitoring strategic issues;
- Determining key policies which impact on the Corporation's activities;
- Approving strategic alliances;
- Monitoring organisational performance against targets;
- Liaising with the Shareholder Ministers and the Portfolio Minister;
- Ensuring compliance with statutory, financial and social responsibilities; and
- Ensuring business risks are appropriately identified and managed.

Composition of the Board

The enabling legislation provides that the Board of NSW Lotteries shall consist of:

- The Chief Executive Officer;
- One Director to be appointed by the Shareholder Ministers on the recommendation of a selection committee comprising:
 - I. Two persons nominated by the Portfolio Minister; and
 - II. Two persons nominated by Unions NSW.
This Director is selected by the committee from three persons nominated by Unions NSW; and
- At least two and not more than five other Directors to be appointed by the Shareholder Ministers at their discretion.



Our Retail Image ensures that NSW Lotteries agencies stand out in a busy and competitive environment

Each Director, with the exception of the Chief Executive Officer, may be appointed to hold office for a period not exceeding five years, renewable at the sole discretion of the Shareholder Ministers. Their level of remuneration is determined by these Ministers. The Chief Executive Officer does not receive any additional remuneration for his role as an Executive Director.

NSW Lotteries maintains Directors' and Officers' Liability insurance which extends to cover Directors and officers of NSW Lotteries. This coverage does not extend to deliberate acts of fraud or dishonesty.

NSW Lotteries is fortunate to be able to draw on a wide range of skills and depth of experience in its current Board, with members from diverse industries, including lotteries, wagering, media, publishing, finance and politics.

As at 30 June 2005, the Board members were: John Bagshaw (Chairman); Bonita Boezeman (Deputy Chairman); Milton Cockburn; Michael Howell (Chief Executive Officer); John Johnson; Denis McCormack; and Suzanne Walsh. The Board members are profiled on page 12 and 13.

Board Responsibilities

The Board is accountable for the overall direction and performance of the Corporation. The Chief Executive Officer is responsible for the day-to-day management of the business in accordance with the directions and policies of the Board.

Board members have significant responsibilities and duties as Directors, with further obligations imposed on them by the State Owned Corporations Act 1989.

A Code of Conduct for the Board has been developed and distributed to all members to ensure that their duties and responsibilities are known and understood.

Board's Operating Framework

The Board has established a basic framework to ensure the efficient and effective management of the Corporation's commercial activities. Key features of the framework are:

- Active involvement in strategic planning for the Corporation;
- Regular monitoring and reviewing of all major areas of the Corporation's performance; and
- Sharing the individual skills of Directors in important areas of the business by participation in Board Committees.

The Board approves all tenders and items of capital expenditure exceeding \$150,000 as well as annual budgets, overseas travel, new products, Business Plans and the Annual Report (including Financial Report).

Board Meetings

Normal meetings of the Board are held at monthly intervals but additional meetings may be held to discuss matters of an urgent or significant nature. During the year 11 monthly Board meetings were held, with the following attendance:

John Bagshaw	11
Bonita Boezeman	11
Milton Cockburn	4*
Michael Howell	11
John Johnson	11
Denis McCormack	11
Alison Payne	7**
Suzanne Walsh	11

*Term of appointment commenced 28 February 2005

**Term of appointment concluded 28 February 2005

Corporate Governance

continued

Board Committees

The Board has established four standing Committees, each with its own documented charter, to assist in the overall good governance of the Corporation and to enable consideration of complex and significant issues in more detail than would be possible within the time constraints of normal monthly Board meetings. The role and composition of the Committees are examined regularly, as part of the annual review of Board performance, and varied to meet the changing needs of the Corporation. The four Committees are:

Marketing Committee

The Marketing Committee's primary roles are to review performance against the Corporation's Marketing Plan and to monitor the progress of business development initiatives. The Committee provides a forum for senior marketing managers to draw on the experience and views of Committee members on major marketing issues. The Committee:

- Considers any proposed changes to the Marketing Plan or business development initiatives for recommendation to the Board; and
- Reviews marketing-related operational policies referred by the Board.

During the year, the Committee considered a wide range of issues including several major enhancements to the existing product range, new physical and electronic distribution opportunities, strategies to increase Players Club membership, and format of the Top Shop Awards.

The Committee comprises:

Denis McCormack (Chairman);

John Bagshaw;

Milton Cockburn;

Michael Howell; and

John Johnson.

Audit and Governance Committee

The Audit and Governance Committee assists the Board in discharging its responsibilities with regard to risk management, statutory financial reporting and corporate governance. The Committee:

- Considers the draft internal audit plan and makes appropriate recommendations to the Board;
- Reviews the adequacy of management's responses and actions to matters raised in internal and external audit reports;
- Annually considers the adequacy of the Corporation's Business Continuity Plan, assessments of business risks and insurance coverage and advises the Board;
- Reviews statutory financial information proposed by management for submission through the Board to the Shareholder Ministers; and
- Alerts the Board to any significant corporate governance issues.

During the year the Committee, amongst other matters, reviewed the Corporation's risk management program, considered a number of operational policies referred by the Board, monitored progress against the internal audit plan, examined reports received from the internal and external auditors and evaluated management's responses to, and actions upon, the matters raised.

The Committee comprises:

Bonita Boezeman (Chairman);

Milton Cockburn;

John Johnson; and

Suzanne Walsh.

The Chief Executive Officer, while not a member of the Committee, attends meetings when invited to do so by the Committee.

Information Technology Committee

The Information Technology Committee is responsible for assisting the Board to oversee the use of information technology within the Corporation.

The Committee:

- Monitors the development and implementation of the Corporation's Information Technology Strategic Plan;
- Evaluates risk management strategies designed to minimise interruption to on-line selling activities; and
- Provides advice to the Board on all matters associated with the current or future use of information technology by NSW Lotteries.

The Committee focussed mainly on the performance of the Gaming System and on-going software enhancements. The Information Technology Strategic Plan was reviewed regularly against milestones and there was increased focus on emerging technologies.

The Committee comprises:

John Bagshaw (Chairman);

Bonita Boezeman;

Michael Howell;

Denis McCormack; and

Suzanne Walsh.

Human Resources and Remuneration Committee

The Human Resources and Remuneration Committee advises the Board on remuneration policies and employment contracts for senior executives and oversees the effectiveness of human resources strategies for the Corporation's employees. The Committee:

- Provides advice to the Board on remuneration, performance payments and related matters; and
- Reviews strategic human resource decisions to ensure that NSW Lotteries has a skilled and motivated work force operating in a safe environment.

During the year the Committee reviewed a range of matters including executive contracts, succession planning and workforce planning.

The Committee comprises:

John Bagshaw (Chairman);

Bonita Boezeman; and

Michael Howell.

Monitoring performance

NSW Lotteries has a series of operational performance indicators that are subject to reporting and monitoring at each Board meeting. These include:

- Sales;
- Staff numbers;
- Operating revenue, expenses and profit;
- Duty to Government; and
- Selling system uptime.

The Board also receives reports each quarter on progress towards the achievement of Business Plan targets, strategies, Divisional action plans, and product profitability.

Annual review of Board performance

As part of its continuous improvement philosophy, the Board conducts an annual review of its performance to assess how well it is meeting its various responsibilities. The purpose of the review is to identify areas for improvement to ensure that the Board accomplishes its role in the most efficient and effective manner possible. During the process, each Board member and executive manager of the Corporation is provided with an opportunity to contribute to the Board's future direction and role.

Board of Directors

John Bagshaw

Chairman

BSc, FAICD

John is the inaugural Chairman of the corporatised Board of NSW Lotteries and a founding member of the first Board established in 1991. He was formerly Chairman and Chief Executive of Bell and Howell Australia Group Limited and has 33 years Board experience primarily in gaming, computer technology and technology related fields. John is a commercial breeder of standardbred horses and is currently Chairman of the Australian Harness Racing Council. He previously served as a Director of NSW Harness Racing Club Ltd.

Bonita Boezeman AO

Deputy Chairman

PMD Harvard, FAMI, FAICD

Appointed March 1994. Currently Managing Director of Business Benefits International, Bonita was formerly an international executive with Time Warner Inc for 23 years and was Chairperson and Chief Executive Officer of Time Life (Australia) Pty Ltd for 13 years. A graduate of the Harvard Business School Executive Program in 1987, Bonita has an extensive background in marketing and financial management. She is currently a Director of the Sydney Harbour Foreshore Authority and Perpetual Trustees, as well as the Catholic Development Fund, the Corporate Olympic Committee and Chair of the East West Foundation. Bonita was awarded the Order of Australia and the Centenary Medal for significant contributions to business and philanthropy.

Michael Howell

Chief Executive Officer

Dip Tech (Comm), CPA, MAICD

Appointed Chief Executive Officer of the Corporation in 1997 after seven years as General Manager of NSW Lotteries. Michael was a founding member of the Board and has over 30 years experience in commerce and public sector finance. He has worked in the lottery industry for many years and has acted as an adviser to a number of overseas Governments on the introduction of various lottery games. He is Chairman of the National Lotto Bloc and a member of CPA Australia and the Australian Institute of Company Directors.

Milton Cockburn

B.Com (Hons)

Appointed February 2005. Milton has been Executive Director of the Shopping Centre Council of Australia since April 2001. He was a journalist for 16 years with The Sydney Morning Herald, in Sydney and in Canberra, and is a former Editor of that newspaper. He was also General Manager Media of the Sydney Organising Committee for the Olympic Games (SOCOG) and, subsequently, an adviser to the Beijing 2008 Olympic Games Bid. Milton is also a former director of the University of New South Wales Press and a former member of the Australia Abroad Council.

John Johnson

Appointed April 2002. John has a background in retail, which led to an extensive involvement in the union movement where he held numerous official positions. He served as a member of the Parliament of NSW for 26 years and was President of the Legislative Council for 13 years. During his time in Parliament John sat on a range of Parliamentary Committees and retired from Parliament in 2001. John is a former director of Prince Henry and Prince of Wales Hospital Group and was former Guildmaster of the Catholic Evidence Guild. He is a Board member of the Randwick Labor Club and was appointed in 2003 and re-appointed in June 2005 as Chairman of the Board of The Catholic Press Newspaper Company Pty. Ltd.

Left to right: Denis McCormack, Michael Howell, Milton Cockburn, Bonita Boezeman, John Bagshaw and John Johnson



Denis McCormack

FAMI, FAIA, AIFS

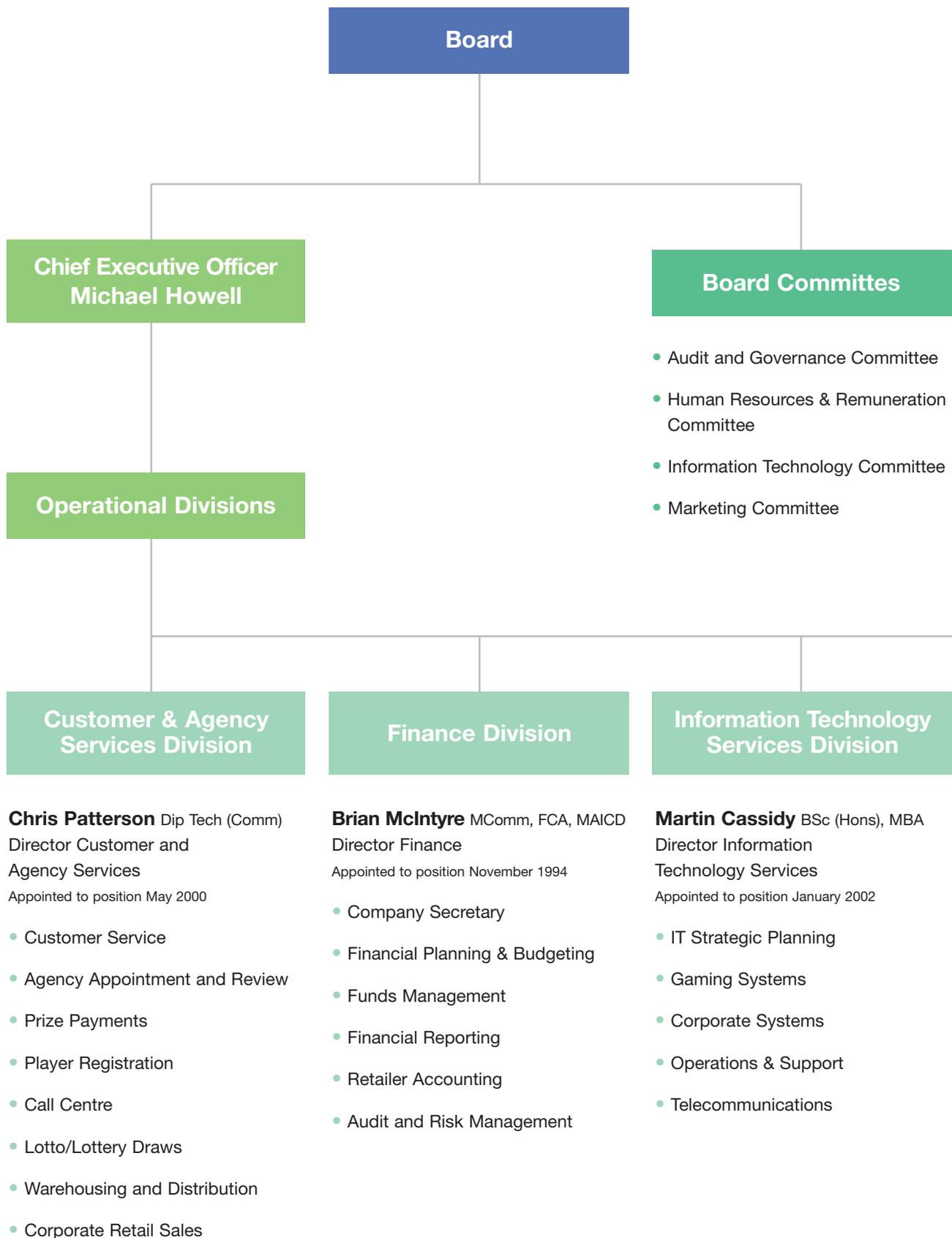
Appointed January 1997. Denis is Managing Director of Southside Six Pty Ltd. His marketing career spans almost 40 years. A former advertising agency Director and Chief General Manager (Marketing) of St. George Bank Ltd, Denis is also a former member of the NSW Lotto Board of Control and a former Director of the Sydney Festival and IOOF Building Society (Victoria). His current directorships include Fantastic Holdings Ltd, the Lansdowne Club (Ireland-Australia Business Group) and Sutherland Credit Union Ltd. Denis is also a member of various charity committees.

Suzanne Walsh



Appointed July 2000. Sue is the Unions NSW representative on the Board. She is President of the Public Service Association of NSW, the union representing State Public Sector employees with 47,000 members, covering a wide range of Government departments, corporations and trading enterprises. Sue was elected as Director of SGE Credit Union in November 2000 and is on the Executive of Unions NSW. Sue is committed to supporting community organisations and is a Director of the Bowlers' Club of New South Wales. In addition, Sue is a Federal Councillor on the State Public Service Federation, which is part of the Community and Public Sector Union with 180,000 members nationwide. She also represents NSW on a Federal Education Industry Committee.

Management Structure





Corporate Services Division

Susan Browne B. Comm, CA.
Director Corporate Services
Appointed to position December 2000

- Business Planning
- Human Resources
- Property Management
- Support Services
- Executive Support

Marketing and Sales Division

Andrew Everett
Director Marketing and Sales
Appointed to position October 1998
Retired 1 July 2005

- Product Management
- Communications and Public Relations
- Sales
- Business Development
- Retail Network Training



After a 20-year career with NSW Lotteries, Director Marketing and Sales, Andrew Everett, retired on 1 July 2005. His rise through the Corporation was marked by a strong commitment to customer service and commercial efficiency. Andrew made a significant contribution to the sales performance of the NSW Lotteries portfolio of games, including the launch of the two biggest-selling games, Powerball and Saturday Lotto.

01

OUR PLAYERS



one day >

7:00am Nadia Sharp regularly plays a selection of games. Her favourite game is Powerball - she hopes that a win will let her 'spend the rest of her life'...that big win...One Day...

2:00am | 3:00am | 4:00am | 5:00am | 6:00am | **7:00am** | 8:00am | 9:00am | 10:00am

The NSW Lotteries' product portfolio consists of a number of Lotto-style games – Lotto (Monday, Wednesday and Saturday and the add-on game of Lotto Strike), Powerball and OZ Lotto – and Instant Scratchies, Lucky Lotteries and 6 From 38 Pools.

PRODUCT DEVELOPMENT

Objective: To increase sales.

The NSW Lotteries' product portfolio consists of a number of Lotto-style games - Lotto (Monday, Wednesday and Saturday and the add-on game of Lotto Strike), Powerball and OZ Lotto - and Instant Scratchies, Lucky Lotteries and 6 From 38 Pools.

All products are sold throughout New South Wales and the Australian Capital Territory. Saturday Lotto, Powerball, OZ Lotto and 6 From 38 Pools are national games operated in conjunction with other Australian lottery operators while the other games are conducted only by the Corporation.

Each day NSW Lotteries sells close to a million entries on average, doubling this figure during big jackpots. The Corporation faces the challenges of meeting the changing needs of its large existing customer base, while also attracting new players.

At the same time, like other lottery operators world wide, NSW Lotteries faces slowing growth due to the maturity of lottery products and competitive pressures associated with other forms of gaming and wagering.

Even in the face of a weaker State economy and a generally tough retail environment, sales were the highest ever, at \$1,116 million. This was up \$7.1 million (or 0.6%) on the previous year's sales record of \$1,108.9 million.

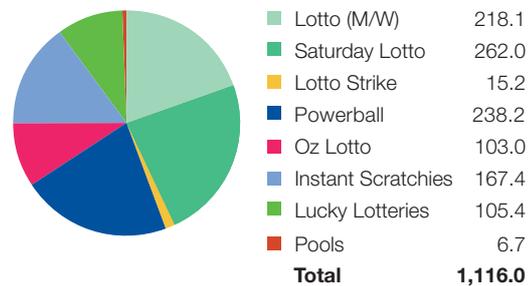
Despite another record year, however, sales fell \$19 million (or 1.7%) short of the full-year target of \$1,135 million.

The overall turnover for all types of Lotto-style games reached \$836.5 million, which was 2.8% above the previous year.

Instant Scratchies remained relatively stable at \$167.4 million, as did 6 From 38 Pools. Lucky Lotteries achieved \$105.4 million, which was down 13.5% following the unusually high jackpot levels achieved in the \$2 Jackpot Lottery in the previous year.

The sales and performance of each game, along with highlights for the year and other points of interest, are summarised in Games at a Glance which start on page 18.

Turnover by Product (\$M)



Sales of the Lotto Games Portfolio (\$M)



2:00pm The historic village of Wisemans Ferry came alive on the day the OZ Lotto team arrived with a Truckload of Cash to film the popular television ad

5:00pm After years of struggling to watch her old television, regular player Judith from Culburra Beach scratched her *Scratch Snack 'n' Relax* ticket to win a Home Theatre system

| 11:00am | 12:00pm | 1:00pm | **2:00pm** | 3:00pm | 4:00pm | **5:00pm** | 6:00pm | 7:00pm



01



Games at a Glance

Lotto (Mon, Wed, Sat & Strike)

Slogan

Making dreams come true

Highlights

- Record \$31 million prize offer for the New Year's Eve Superdraw.
- 25th Anniversary of Lotto in November 2004 provided the opportunity to promote the game's heritage
- Lotto Strike jackpot won twice; re-education campaign reinforced the benefits of the game

Outlook

- Saturday Lotto will continue to grow
- Further enhancements to Monday and Wednesday Lotto will help sales

Performance

- Lotto remains the Number One game within the NSW Lotteries portfolio
- Highest ever sales achieved for the Lotto brand, boosted by Saturday Lotto

Launched

1979 (Monday) 1984 (Wednesday) 1995 (Lotto Strike)
2000 (Saturday)

Sales

\$495.3 million

Variance on previous year

Up 5.7%

Share of NSWL total portfolio of games

44.4%

Division One winners

182 (40 millionaires)

Largest prize offered

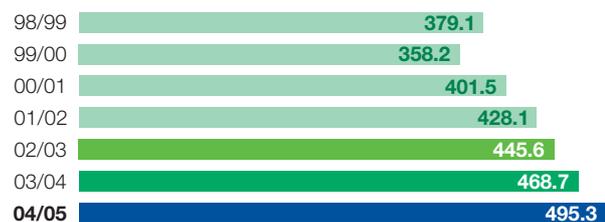
\$31 m (Saturday Lotto)

Prizemoney paid

\$314.0 million

Sales for seven years

Sales of Mon, Wed, Sat & Strike (\$M)





Powerball

Spend the rest of your life

- New accelerated sequence of jackpots, funded by five cent per panel price increase
- New jackpot sequence going to \$50 million!

- Jackpots next year expected to better reflect probability
- Predicted prizes in the range of \$22 million to \$33 million will drive sales growth

- New jackpot sequence did not reach full potential as jackpots won more frequently than normal

OZ Lotto

A truckload of cash

- 29 jackpot weeks through the year and First Division prizes totalling \$151 million
- Review of game matrix and jackpot size conducted

- Game revisions will increase player appeal

- Despite jackpots ranging up to \$15 million, OZ Lotto was affected by larger first division prizes offered by Powerball and Saturday Lotto

1996

\$238.2 million

Down 1.5%

21.3%

12 (12 Millionaires)

\$22 million

\$146.5 million

1994

\$103 million

Down 0.6%

9.2%

8 (8 millionaires)

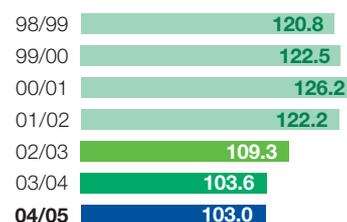
\$15 million

\$57.1 million

Sales of Powerball (\$M)



Sales of Oz Lotto (\$M)



01



Games at a Glance

6 From 38 Pools

Slogan

Pools the smart choice

Highlights

- Total jackpots offered during the year were \$16.7 million

Outlook

- Sales will depend on competing prize offers and how long the jackpot is maintained in excess of \$1 million

Performance

- Static sales reflected impact of larger and more popular jackpot games, especially Saturday Lotto

Launched

Conducted by NSW Lotteries since 1989

Sales

\$6.7 million

Variance on previous year

No change

Share of NSWL total portfolio of games

0.6%

Division One Winners/ First prize and jackpot winners

11

Largest prize offered

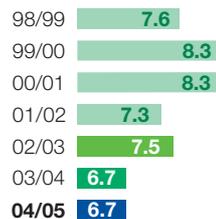
\$1.35 million

Prizemoney paid

\$4.6 million

Sales for seven years

Sales of 6 From 38 pools (\$M)





Lucky Lotteries

You ought to buy yourself a lottery ticket

- Successful Friday 13th promotions in August 2004 and May 2005, each generated sales of over \$1 million
- Cross-promotions with products such as Powerball, boosted \$2 Jackpot Lottery sales and introduced new players to the game
- \$2 Jackpot Lottery stood at \$7.5 million at 30 June 2005 - if jackpot continues it will boost sales
- \$5 Jackpot Lottery was restructured in July 2005 to help it remain competitive
- Jackpot sequences conformed more closely with probability after an abnormal number of long jackpot runs last year
- Sales momentum during low jackpots maintained by on-line product promotions

1931

\$105.4 million

Down 13.5%

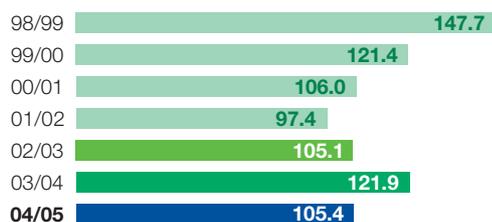
9.5%

\$2 Jackpot Lottery - 232 First Prize winners. Three \$2 Jackpot Lottery millionaires. \$5 Jackpot Lottery - 18 First Prize winners. One \$5 Jackpot Lottery millionaire

\$7 million jackpot won in February 2005

\$63.5 million

Sales of Lucky Lotteries (\$M)



Instant Scratchies

Scratch me happy

- 45 new games covering 7 price points were launched, including Monaro & Money - with a Holden VZ Monaro as the top prize, and Star Wars
- The \$3 'Game Play' segment was very popular, especially bingo-style games, and top prize increased from \$50,000 to \$150,000
- Bonus Offers generated over \$34 million
- More movie tie-ins, car give-aways and 'Game Play' Instant Scratchies will continue to drive sales
- Sales were maintained by offering a variety of new games and promotional offers

1982

\$167.4 million

Up 0.7%

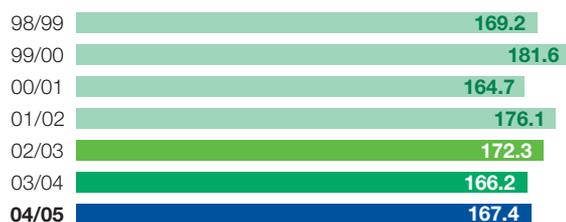
15%

\$4 Win For Life prize - equivalent to \$1 million

Two \$4 Win For Life prizes - each equivalent to \$1 million

\$106.4 million

Sales of Instant Scratchies (\$M)



01

OUR PLAYERS (Cont'd)

OUTLOOK

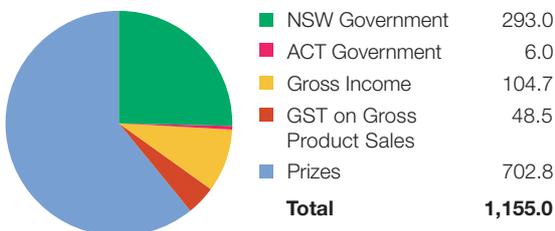
The outlook for the lotto-style games is strong. Saturday Lotto will continue to grow, and further game changes are planned for Monday and Wednesday that promise to broaden the games' appeal and offer increased value to players at all prize levels.

It is anticipated that the incidence of Powerball jackpots next year will better reflect statistical probability, and deliver a number of jackpot prizes in the range of \$22 million to \$33 million. With such enormous prizes on offer, we expect increased player interest to drive sales growth strongly over the next 12 months.

Following a review to identify opportunities for enhancements, OZ Lotto will be reinvigorated by building on its current strengths as the "Aussie" branded national jackpotting game. The changes will help OZ Lotto compete on a more even footing against the other big prize games Saturday Lotto and Powerball.

For the other games, the sales outlook remains steady.

Projected Sales Distribution 2005/2006 (\$M)



With no new games on the horizon, the focus in the short term will be on enhancing the existing portfolio of games to build on each product's unique features to offer players genuine choice and variety.

We are seeking to build Instant Scratchies sales by making the games even more fun and entertaining, and building on the strategies that proved successful this year, such as tie-ins with blockbuster movies and car prizes.

To ensure that the \$5 Jackpot Lottery remains competitive against the \$2 Jackpot Lottery, it was restructured in July 2005 to offer an average jackpot level of \$7 million.

A loyal player base attracted by the game's soccer ties and more favourable odds will help 6 From 38 Pools continue to provide largely incremental revenue, with demand affected by jackpot size and competing prize offers.

Overall, we anticipate that jackpots for Saturday Lotto, Powerball and OZ Lotto will conform more closely to probability.

At the same time that we will be making game enhancements designed to boost the rate of jackpot growth, we will also be seeking to lessen the growing dependence on high jackpots by encouraging and rewarding regular play, especially through improved divisional prizes in Monday and Wednesday Lotto.

With no new games on the horizon, the focus in the short term will be on enhancing the existing portfolio of games to build on each product's unique features to offer players genuine choice and variety.

We will be building on our well-established retail network by identifying new outlets in high traffic areas and exploring alternative distribution channels. This will ensure that our retail network meshes as closely as possible with the needs of our customers and recognises future likely changing retail trends.



Surf Life Saving NSW promoted a safe swimming season with the launch of the Surf Life Savers Instant Scratchies game



Some of the seventeen teachers from Coffs Harbour's Tyalla Public School who scooped a \$3 million Powerball prize

PLAYER SERVICES

Objective: To ensure our products and services meet players' expectations.

With two thirds of the adult population of NSW and the ACT playing our games at least once a year, effective service delivery is crucial for NSW Lotteries in meeting the expectation of players. While we rely on the retail network to sell our products, we directly offer a number of player services aimed at making playing, and winning, lottery games a rewarding experience.

Players Club

The NSW Lotteries Players Club is the largest lottery player service in Australia, with more than 937,000 active members, who accounted for over 59% of all customer transactions.

For just \$3.30 a year, members receive:

- An individually numbered plastic card to record their individual lottery transactions and ensure they receive all prize entitlements;
- Immediate notification of major prize wins;
- Automatic payment by mail of any prize not claimed;
- Protection for lost tickets, as registered players can have a "hold" put on the ticket and any prizes won;
- "Favourite Picks" option, allowing players to store favourite numbers on the card;
- Ability to change address details using the Corporation's Internet site at www.nswlotteries.com.au; and
- The added security of being able to register their purchases in on-line syndicates.

Call Centre

As first contact point within NSW Lotteries, the Call Centre is a critical link between players, retailers and the Corporation, especially for players in remote locations. In addition to providing technical assistance to retailers regarding the operation of their selling terminals, telecommunications and product promotions, the Call Centre handles enquiries from players about the various games, promotions, winning numbers and prizes.

Over the course of the year, the Call Centre handled more than 125,000 calls from retailers and customers. This represents a 16% reduction over the previous year and reflects reduced queries from retailers due to improved reliability of the 'Altura' selling terminals following a major refit of hardware completed in March 2004.

Over 92% of the calls were answered within 30 seconds, exceeding the target of 90% and improving on the result of 91% achieved in the previous year. In addition, more than 320,000 calls were received via the Interactive Results Services, with just over 40,000 (or 1 in 8 calls) requiring assistance or advice from Call Centre operators.

Network Syndicates

During the year NSW Lotteries ran more than 4,500 network syndicates. This popular service to customers and agents offers "syndicate" entries into large jackpots and Superdraws. Customers can purchase a share in a high value entry for a small outlay at any agency. The service also allows agents to offer shares in large syndicates without having to bear the risk of selling all shares locally.

01

OUR PLAYERS (Cont'd)

Electronic Service Delivery

Improved Results Services

With the rapid pace of technological change, customers are seeking alternatives to the traditional methods of accessing lottery game results, such as newspapers and the telephone.

NSW Lotteries now offers customers access to results using more modern electronic forms of communication, including the Internet and Short Messaging Service (SMS), where results are sent as short text messages to mobile telephones. The telephone results service was streamlined by replacing seven individual results lines for each product with a new combined Results Line number - 1900 956 886.



Andree Becker from Beckers Newsagency in Albury urges a lucky winner to claim their windfall

While we rely on the retail network to sell our products, we directly offer a number of player services aimed at making playing, and winning, lottery games a rewarding experience.

www.nswlotteries.com.au

The NSW Lotteries website - www.nswlotteries.com.au - is one of the top ten most visited State Government-owned websites in Australia. Traffic to the site totalled 4,882,140 user sessions this year, which was up 50% from the 3,247,025 user sessions recorded in 2003/04. The last three years has seen a steady increase in the number of users of the site, especially during high jackpot offers.

Website enhancements

A number of changes were made to the website during the year in response to player demand and feedback, mainly to make navigation easier and provide information in a simple, easy-to-access format. Customers are now able to request an e-mail notification of results which contains the winning numbers for the most recent game draws, as well as the current prize offers for each game.

Players are alerted to jackpots, promotions and other special offers by up to four images based on the posters on display at retail locations, included in each email.

Review of Prize Payment Process

As part of the philosophy of continually reviewing all key business procedures, NSW Lotteries commissioned a major accounting firm to undertake a fundamental review of its prize payment system. As a result of the review, several measures have now been introduced to further enhance internal checks and controls involved in processing prize claims, and to reduce the associated level of business risk.

Copies of a new player brochure, 'A Player's Guide to Claiming Prizes', outlining the steps in the new process were distributed to the retail network advising customers on how to protect their winnings.



Fourteen lucky badminton players from Taren Point won \$100,000 with tickets in the \$2 Jackpot Lottery

Privacy Policy

NSW Lotteries recognises that privacy is a paramount concern for lottery players, especially major prizewinners. We also recognise that our huge database of player details needs to be protected from unauthorised scrutiny and misuse.

Accordingly, our Privacy Policy aims to protect the privacy of our customers and to ensure that the collection, accuracy, use, disclosure and destruction of information is compliant with the Privacy Act 1988.

Access to information held by the Corporation is limited to authorised staff on a strict 'need-to-know' basis relevant to their roles and responsibility.

A copy of an information sheet on privacy, or a copy of the Corporation's Privacy Policy can be obtained by contacting (02) 9752 5572 or by visiting our website at www.nswlotteries.com.au.

RESPONSIBILITY

Objective: To be recognised as a Responsible Gaming operator.

Responsible Gaming

NSW Lotteries worked closely with its retail network and industry regulators during the year to ensure compliance with Responsible Gaming Regulations and to encourage the responsible play of lottery games.

Throughout the year our Territory Managers visited all agencies in NSW and the ACT to ensure that retailers understood, and complied with, various responsible gaming obligations. In addition, all new agents and staff received training specifically aimed at ensuring that they are fully aware of the various Regulations and their application.

An internal compliance process is in place aimed at ensuring our advertising and promotional material complies with regulations. Broadly, these audits evidenced that the Corporation was meeting or exceeding the current regulatory requirements.

Update of Australian Lotteries Industry Code of Practice

The Australian Lotteries Industry Code of Practice was updated in early 2005 to reflect changes in the industry since the original code was launched in 1998. The Code was developed in co-operation with the lottery operators in each Australian State and Territory and reflects a common set of principles which have been accepted by all operators and which form the basis of a uniform approach to tackling responsible gaming issues.

It includes a specific lotteries-related advertising code of ethics, and requires compliance with the general code of ethics adopted by the Australian Association of National Advertisers. The Code of Practice provides for the referral of customers to appropriate community agencies if play should become a problem.

The Code commits operators in the industry to a socially responsible framework aimed at ensuring the Australian lotteries industry is recognised as one of the best in the world.

Playsmart Brochure

On behalf of the NSW Department of Gaming and Racing, NSW Lotteries prints and distributes the Playsmart brochure called "...know the odds of your numbers coming up", which outlines the chances of winning Public Lotteries. This was updated in May in advance of the \$5 Jackpot lottery matrix changes in July 2005 and OZ Lotto game changes scheduled for October 2005. The brochure is made available at NSW Lotteries agencies to assist players to make an informed choice when playing lottery games.

02

OUR BUSINESS



one day >

9:00am Distribution Officer Jeffrey Pitt, one of the team at our Lidcombe Distribution Centre, issues Instant Scratchies tickets to the retail network – 45 new games were launched last year, with nearly 1 million books of tickets sent to agents

6:30am | 7:00am | 7:30am | 8:00am | 8:30am | **9:00am** | 9:30am | 10:00am | 10:30am

The overall satisfaction rating with NSW Lotteries continues to be extremely high with 95% of agents indicating they are satisfied to extremely satisfied with our services, up from 88% in the previous survey.

RETAIL NETWORK

Objective: To ensure our service to agents meets their needs.

Retailer Performance

Each week more than 2 million customers visit a NSW Lotteries agency. NSW Lotteries' relationship with its customers, and its commercial success, are based on an effective, well-supported retail network.

At the end of the financial year, there were 1,472 full on-line outlets selling all lottery products and 132 Instant Scratchies outlets located throughout New South Wales and the Australian Capital Territory. Lottery products are sold through a diverse range of small businesses including newsagencies, pharmacies, service stations, convenience stores, supermarkets, bookstores and video stores.

Over the year, NSW Lotteries retailers received \$79.1 million from the sale of lottery products, some \$5 million above the previous year. This represented an increase of 6.9% compared to our overall sales growth of 0.6%, and reflects an ongoing strategy of gradually increasing the rate of retailer commissions, particularly in relation to the newer Megapick type entries.

In addition to the direct income from sales, these small businesses also received the associated benefit of significant retail traffic flow through their stores.

Agency Satisfaction Survey

NSW Lotteries aims to provide quality support to agents that meets or exceeds their needs.

Each year, we conduct a survey of a representative sample of agents to assess their level of satisfaction with the range of services offered by the Corporation, and to obtain feedback on any areas in need of improvement.

In November 2004, 200 agents were surveyed about service levels provided by our Call Centre, Distribution Centre and Territory Managers.

The overall satisfaction rating with NSW Lotteries continues to be extremely high with 95% of agents indicating they are satisfied to extremely satisfied with our services, up from 88% in the previous survey. This improved result reflects the significant effort put into staff training and improving our business processes in recent years.

Commission paid to agents (\$M)



11:00am The highest level of security, sophisticated technologies, expertise and the dedication of internationally recognised independent laboratories are combined to ensure the integrity of every Instant Scratchies ticket offered to our customers

11:00pm The hard work paid-off for Mark and Deborah Munro and their staff from Orana Mall Newsagency at Dubbo. This outstanding agency was named the NSW Lotteries' Top Shop of the year

11:00am

2:00pm

4:00pm

6:00pm

8:00pm

10:00pm

11:00pm

1:00am | 3:00am



02

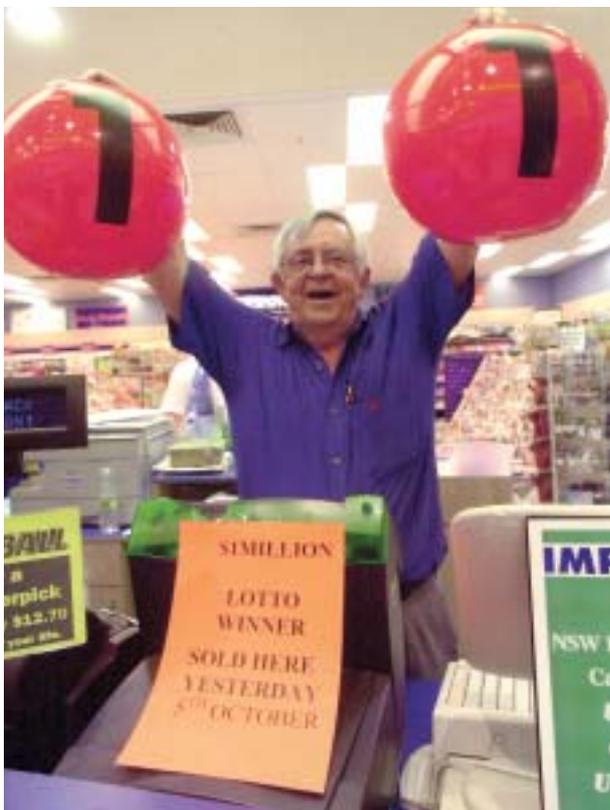
OUR BUSINESS (Cont'd)

Agency Development

During the year, 27 new on-line agencies were appointed as a result of population growth and new retail centre development, including the upgrade of 10 existing Instant Scratchie-only agencies to full on-line agency status.

The high turnover rate of recent years continued this year but at a lower rate, with one in eight agencies changing hands, compared to one in six last year.

As existing agents leave the network, we focus on providing new owners with training in technical, business and sales skills to ensure they provide the best possible service to our players.



Port Macquarie was abuzz as Mal Potter from Settlement City Newsagency searched for a \$1 million Lotto winner

As existing agents leave the network, we focus on providing new owners with training in technical, business and sales skills to ensure they provide the best possible service to our players.

In addition, prospective agents will be more carefully screened to ensure they have the skills and ability to run a viable business.

We are introducing more pro-active training strategies targeting the skills and competency of agency staff, who often remain employed after ownership has changed hands.

Agency Performance Management

A key element in the management of the retail network is the agency Business Plan. Business Plans are negotiated annually with individual retailers and set out agreed sales targets as well as a range of other initiatives aimed at maximising the sales performance of the outlet. At the end of the year, almost three-quarters of the retail network had entered into Business Plans with the Corporation.

In addition, the Agency Performance Management Program provides a systematic approach to identifying and managing any under-performing agencies and developing strategies to help improve sales and customer service.

More than 11,000 visits were made to agents by our Territory Managers last financial year to help manage agency performance. These visits also allowed retailers to resolve many matters face-to-face and to provide direct feedback to the Corporation on issues impacting service to customers.



Rod Porter from Maitland Central Newsagency was all smiles as his customers chased the chance of winning the massive \$31 million Lotto draw on New Year's Eve

Top Shop Awards

Our Agent Reward and Recognition Program, known as 'Top Shop', aims to motivate agent performance and reward excellence in our retail network.

Now in its eighth year, Top Shop has grown to the point where almost 60% of all agents have signed up to participate in the program. The benefits are clearly evident from the sales growth achieved by those participating in the Top Shop program, compared to the overall network.

Top Shop participants averaged around 9.4% growth compared to 0.6% average growth for all agents.

The Top Shop program evaluates retailers against a range of criteria, with awards given throughout the year for high achievement in various categories based on:

- Sales growth;
- Customer service standards and professional selling skills;
- Product support through merchandising and in-store promotions;
- Product knowledge;
- Retail Image presentation; and
- Management, performance and compliance with policies and procedures.

Total prizes of more than \$130,000 were distributed to agents, in the form of cash and merchandise during the year. The highlight of the scheme is the Annual Awards Dinner which recognises the outstanding agents. The winners of the major awards were recognised at the gala presentation evening held at the Shangri-La Hotel, Sydney.

Top Shop for 2004/05

Orana Mall Newsagency, Dubbo

Top Shop Finalists

Greenhills Newsagency, East Maitland
The Mall Newsagency, Campbelltown
Country Capital News, Tamworth

Chairman's Award

Bonnells Bay Newsagency, Bonnells Bay

Merchandising Award

Greenhills Newsagency, East Maitland

Top Selling Agency in the NSW Lotteries Retail Network

Eastgardens Newsagency, Eastgardens

Top Shop Agency with Highest Dollar Growth

Shellharbour Square Newsagency, Blackbutt

Top Shop Agency with Highest Percentage Growth

Lake Cathie Newsagency, Lake Cathie

Agency Co-ordinator Recognition Award

Jessica McKenzie, North Albury Newsagency, Albury

02

OUR BUSINESS (Cont'd)

The Lidcombe Distribution Centre supplied the retail network with a huge volume of material over the course of the year, including more than 990,000 books of Instant Scratchies tickets, 17 million entry forms and 93,000 paper rolls for printing lottery tickets. Ticket stock alone equalled 18,500 kilometres - enough to reach almost halfway around the world.

Retail Training

Our customers are the most important part of our business, and the NSW Lotteries Retail Training Program gives small retailers the necessary skills and development to meet their needs.

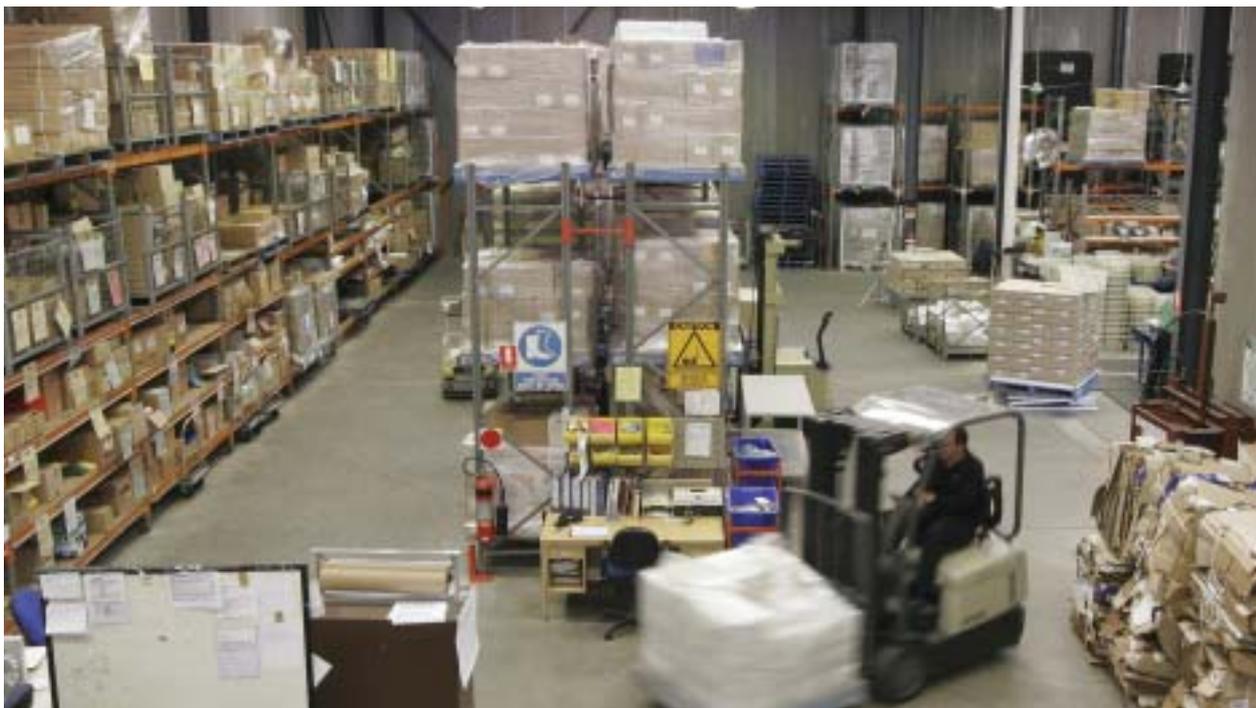
Friendly, efficient service is paramount, along with the sales ability to give our front line operators a competitive edge. As there are potentially serious consequences arising from even minor errors at the point of sale, technical and operational training is extremely detailed and thorough.

Core training comprises a four-day Lottery Management Course for new agents, a half-day Instant Lottery Management Course for Instant Scratchie agents and a Terminal Operations Course for agency staff. Other training courses offered to agents over the year included:

- Agency business administration - including balancing and reporting;
- Instant Scratchie administration and reconciliation;
- Product knowledge; and
- Responsible Gambling education (for our Australian Capital Territory agents and staff).

A major initiative this year was a series of "High Performance Selling" seminars conducted in Canberra, Newcastle, Parramatta, Wollongong, Chatswood and Dubbo.

Agents who attended reported marked improvements in their sales performance and the seminars will be rolled out to the remainder of the retail network during the next 12 months.



A bird's eye view of the Lidcombe Distribution Centre



Retail Image

The way lottery products are presented at point of purchase has a significant impact on sales.

NSW Lotteries encourages agents to provide a dedicated lottery area that is well organised, easily identifiable and invites play.

Our retail image program provides retailers with expert advice on the latest design and signage to ensure our agencies stand out in a busy and competitive retail environment.

By the end of the year, nearly 1,000 agencies had installed the latest retail image, showcasing the Corporation's games and creating a visual link to our product advertising.

Lidcombe Distribution Centre

Our Distribution Centre plays an important role in supplying agents with everything that they need to support the sale of our products. The Centre supplies consumables such as entry forms, bet receipts, promotional stationery and Instant Scratchies tickets, and mails prize cheques and free tickets to customers.

The Lidcombe Distribution Centre supplied the retail network with a huge volume of material over the course of the year, including more than 990,000 books of Instant Scratchies tickets, 17 million entry forms and 93,000 paper rolls for printing lottery tickets. Ticket stock alone equalled 18,500 kilometres - enough to reach almost halfway around the world.

A major review of warehousing and distribution systems was undertaken during the year in conjunction with warehouse staff.

As a result of the review a number of changes to the equipment and layout will be undertaken which will lead to speedier fulfilment of agent orders, and better Occupational Health and Safety practices.

Promotional Activity

Promotional activity reinforces mainstream media advertising and helps to create player excitement and interest at the point of purchase.

During the year, over 1,000 promotions supported major events such as Mother's Day, Father's Day, Christmas, Friday 13th, the seven Saturday Lotto Superdraws, and big jackpots in Powerball and OZ Lotto. These also included internal agency-run promotions, such as second-chance draws.



03

OUR SHAREHOLDERS



one day >

10:00am Assets & Security Manager Ralph Maiolo checks the four tonne diesel generator that ensures continuous operations at our Homebush Bay site in the event of an interruption to mains power

12.00am | 2:00am | 4:00am | 6:00am | 8:00am | **10:00am** | 12:00pm | 2:00pm | 4:00pm

Record sales this year of \$1,116 million allowed NSW Lotteries to provide the NSW Government with almost \$376 million. This year the profit from ordinary activities before significant items and income tax equivalent of \$48.3 million was also a record for NSW Lotteries.

SHAREHOLDER VALUE

Objective: To continually increase Shareholder value by improved business performance.

As Australia's largest selling lottery operator, the Corporation is clearly a major commercial enterprise.

Recognised in the latest Business Review Weekly's Top 1000 Australian companies list, the Corporation ranked 184th among the country's largest public and private sector enterprises.

As a State Owned Corporation, NSW Lotteries contributes to the community by maximising the return to our owner - the NSW Government. Since our inception in 1931 we have raised more than \$5 billion in revenue to assist the Government of the day in providing a wide range of facilities and services to the community, such as hospitals, schools and roads.

Record sales this year of \$1,116 million allowed NSW Lotteries to provide the NSW Government with almost \$376 million. This total return included lottery duty, income tax equivalent, GST and dividends.

In addition to generating sales, NSW Lotteries aims for business efficiencies that ensure the Corporation is operating securely, profitably and at least as efficiently as any comparable businesses.

This year the profit from ordinary activities before significant items and income tax equivalent of \$48.3 million was also a record for NSW Lotteries.

Mirroring this result, returns on average shareholders' equity and corporate assets increased to 105.3% and 48.2% respectively.

Operating Costs (% of Sales)



A summary of the outcomes achieved this year against the annual targets negotiated with our Shareholder Ministers is shown on page 1 of this report.

Risk Management

NSW Lotteries may operate a business based on chance, but every effort is made to minimise risk to ensure the continued success and integrity of our business activities.

A significant element in the effective management of the Corporation's resources is regular scanning of our operating environment to identify major risks. Each risk is then assessed and prioritised according to its likelihood of occurrence and the significance of its impact. In turn, risk management procedures are reviewed and relevant strategies implemented to manage each area of risk.

Our Risk Management Program is based on the relevant Australian standard and focuses on mitigation strategies as well as the transfer of risk. The Program covers all key areas of the Corporation's activities including:

- Audit Activities;
- Fraud Prevention;
- Anti-Corruption Activities;

8:00pm Selling has closed, computer tapes secured, and the television set is ready for broadcasting another Lotto Draw

10:00pm The Lotto Draw is over and our Information Technology staff work through the night to identify winners and prepare the on-line system for another day's trading

h | 6:00pm | **8:00pm** | 9:00pm | **10:00pm** | 11:00pm | 12:00pm | 1:00am | 2:00am | 3:00am



03

OUR SHAREHOLDERS (Cont'd)

- Business Continuity;
- Insurance;
- Compliance;
- Investigations;
- Asset Management and Security;
- Information and Intellectual Property Security; and
- Privacy, Information Disclosure and Freedom of Information.

Insurance

Insurance is one of a number of tools used by the Corporation to manage and mitigate areas of assessed risk. As part of its overall approach to manage and mitigate risk, the Corporation regularly reviews the type and extent of its insurance coverage.

All key insurance risks, including Workers' Compensation, Property and Consequential Loss, Motor Vehicle, Public Liability and Directors' and Officers' Liability are reviewed at least annually.

Business Continuity

In the current operating climate it is prudent to plan to maintain core business activities following an unforeseen problem, whether a major disaster or minor outage.

The NSW Lotteries Business Continuity Plan focuses on ensuring the Corporation is as prepared as possible and can restore operations with a minimum of down-time. The Information Technology component of the plan provides procedures to manage a serious, unplanned disruption to information technology processing at the corporate data centre, including restoring the operation of the gaming system at the Corporation's off-site backup data centre, if required.

The NSW Lotteries on-line gaming system processed more than 2.2 million transactions on Friday 31 December 2004, during selling for the \$31 million New Year's Eve Lotto draw.

Information Technology

The NSW Lotteries on-line gaming system processed more than 2.2 million transactions on Friday 31 December 2004, during selling for the \$31 million New Year's Eve Lotto draw.

This year the NSW Lotteries on-line gaming system processed more than 328 million transactions.

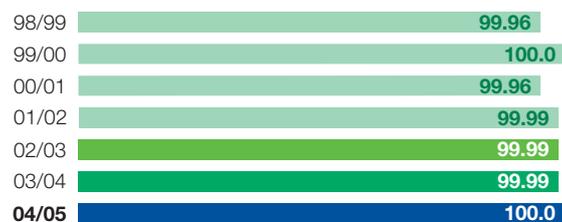
The system performed in an outstanding fashion and the central system delivered 100% availability during selling hours, against a target of 99.99%. The telecommunications network that links the retail outlets also achieved target, with 99.96% availability.

This level of reliability doesn't just happen but is the outcome of a concerted effort to improve business processes and control quality.

Sixteen software releases were made during the year which provided a range of system improvements and new games and features for players and agents.

Whilst most of the focus is directed at maintaining the crucial on-line gaming system, a number of enhancements were made to other corporate technology systems which support the Corporation's business.

Selling System Availability (%)



The mobile office systems used by Territory Managers have been upgraded to the latest technology, with immediate access to a virtual private network offering sales data and agent performance reports to assist them in servicing the retail network.

A new Corporate Human Resource Information System (or CHRIS) was introduced during the year to provide greater access and control over personnel information such as leave, pay and performance, allowing for smarter and more efficient use of the information throughout the Corporation.

A major issue for NSW Lotteries over the next three years will be to identify and evaluate options for replacement of the on-line gaming system.

While the current system was launched in July 2000, as both home and corporate users know, computer speed and capability is changing at a rapid rate.

Not only must the system be as fast and smart as possible, the highly specialised gaming software needs to be able to accommodate new products and new selling channels such as interactive television, smartphones and the Internet.

By developing a vision for the technical platform that will support our business beyond 2010, we can ensure that NSW Lotteries is well positioned to meet the as yet unknown demands of the future.

Energy Management Policy

The Corporation aims to reduce energy use and greenhouse emissions through its Energy Management Policy, which is based on the NSW Government's policy and world's best practice benchmarks.

We continued to purchase an energy mix containing 6% Greenpower, which is a practical initiative to reduce greenhouse emissions by using energy generated through alternative power sources such as solar and wind power.

The Corporation's Homebush Bay premises was assessed as having "good energy systems and management practices" and achieved a 3 star rating in an independent review conducted under the Australian Building Greenhouse Rating Scheme.

Energy efficient products and equipment are purchased and installed with power save modes enabled where applicable, such as upon personal computers and photocopiers. Energy consumption is monitored on an ongoing basis and the consumption level remained stable over the year.

In addition, smaller and more economical vehicles are being purchased as part of the Corporation's plan to provide a cleaner vehicle fleet.

Waste Reduction and Purchasing Policy

During the year, the Corporation continued to implement strategies and initiatives aimed at reducing waste in line with the NSW Government's Waste Reduction and Purchasing Policy (**WRAPP**). This included:

- Expanding the use of email for internal and external communication;
- Creating electronic templates for forms and making them available electronically rather than in hard copy format; and
- Printing double-sided documents.

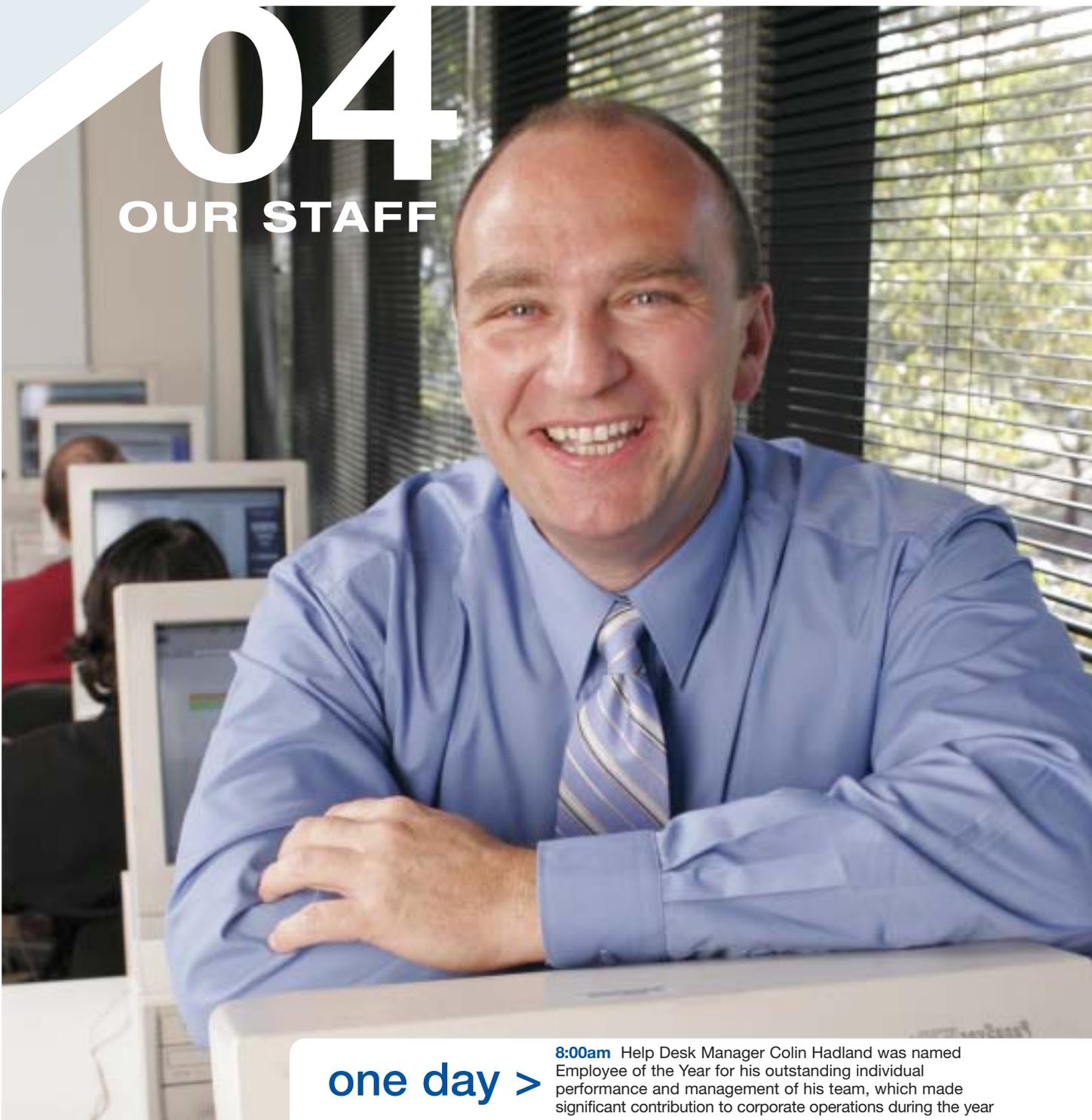
Waste is reused and recycled wherever possible, including an extensive recycling plan for paper and cardboard, and collection by Planet Ark of all toner cartridges. The purchase of cost-effective recycled-content material is encouraged through the Corporation's purchasing policy by:

- Purchasing goods and services under government contract, which favour environmentally friendly standards;
- Encouraging the purchase of multi-functional office equipment; and
- Purchasing stationery items, such as copy paper and envelopes, with recycled content.

At a more "down to earth" level, excess vegetation generated from the maintenance of the Homebush Bay site is removed, mulched, and reused by the landscaping contractor.

04

OUR STAFF



one day >

8:00am Help Desk Manager Colin Hadland was named Employee of the Year for his outstanding individual performance and management of his team, which made significant contribution to corporate operations during the year

6.30am | 6:45am | 7:00am | 7:30am | 7:45am | **8:00am** | 8:30am | 8:45am | 9.00am | 9:15am

A Workforce Plan has now been developed to assist NSW Lotteries in meeting the needs of today and to attract and develop the appropriate workforce for the future.

WORKING ENVIRONMENT

Objective: To ensure our workforce is able to respond to future business needs.

Workforce Planning

There have been numerous structural and technological changes that have impacted our business over the last 10 years. It is certain that these changes will continue at a more rapid rate in the future and achieving the right mix of skills and knowledge to meet future demands is a key business goal which needs to be planned and managed.

At the same time, NSW Lotteries faces a growing challenge in managing a workforce typified by ageing demographics, an issue common to many similarly sized organisations in Australia.

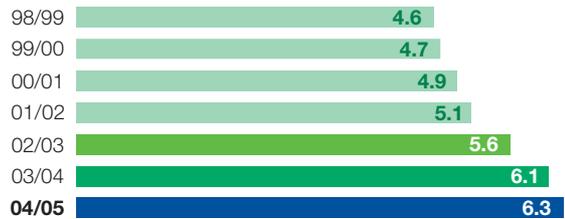
To meet this challenge, a formal workforce planning process was implemented this year, and has become a key element of our corporate strategic management framework. In the initial stages of the process, project teams were established in each operating Division to develop and implement workforce planning strategies. This methodology helped to determine strategic issues facing the Corporation in the areas of employee knowledge, skills and expertise.

A Workforce Plan has now been developed to assist NSW Lotteries in meeting the needs of today and to attract and develop the appropriate workforce for the future.

Revenue per Employee (\$M)



Sales per Employee (\$M)



Average Staff Numbers



As demonstrated by the graphs above, NSW Lotteries is proud of its continuous improvement in a challenging operating environment.

Award Negotiations

This year saw the negotiation, and subsequent certification, of a new NSW Lotteries Corporation Salaries Award. This instrument sets the salaries, allowances and conditions of employment for Award staff for the next three years.

10:00am Retail Training Manager Michael Kennis welcomes new agents to the four-day Lottery Management Course designed to give agents all the knowledge they need to operate a successful lottery agency

2:00pm Game changes are the result of months of planning and development, testing and re-testing. Quality Assurance Tester Russell Anderson is one of a team who are committed to ensuring the integrity of our games

9:30am | 9:45am | **10:00am** | 11:00pm | 12:00pm | 1:00pm | **2:00pm** | 3:00pm | 4:00pm



04

OUR STAFF (Cont'd)

Human resources statistical report

As at 30 June	June 2001	June 2002	June 2003	June 2004	June 2005
Executive	6*	6*	6*	6*	6*
Senior Specialist Managers	8	7	7	7	7
Administrative Staff	174	172	168	156	149
Distribution Officers	17	15	14	11	11

*Includes one female

Occupational Health and Safety

NSW Lotteries is committed to ensuring the safety and well being of all its employees. Staff are encouraged to actively participate in the resolution of workplace safety issues and this is reflected in the Corporation's Occupational Health and Safety Committee. The Committee, comprising both management and staff representatives, met bi-monthly throughout the year to review health and safety issues. In addition, all committee members undertook refresher training to ensure their knowledge of relevant legislation was current.

Key OH&S performance statistics are as follows:

OH&S Statistical Report

	2000/01	2001/02	2002/03	2003/04	2004/05
Average number of employees	205	201	195	183	176
Total number of work injuries	16	23	29	15	28
Actual expenditure on OH&S programs (\$)	19,608	31,085	21,907	13,523	25,567
Total number of Workers Compensation Claims	8	7	12	10	14
Total number of employees who participated in a rehabilitation program	2	-	3	1	1
Number of hours in training in OH&S	69	541	280	150	203
Number of OH&S representatives	N/A	-	8	8	7
Number of OH&S committees	N/A	2	2	2	2

Performance Development Program

The NSW Lotteries Staff Performance Development Program focuses on the personal development of each individual employee while ensuring that their on-the-job performance is appropriately managed within a consistent and coordinated framework. It provides scope for work planning and performance review and identification of appropriate development activities to be pursued during the ensuing 12 months.

Over the year Performance and Development Plans for individual staff were developed based on the business needs outlined in the corporate Business Plan.

Training and Development

NSW Lotteries maintains a strong commitment to staff training and development, recognising the importance of a skilled workforce for such a specialised business.

As learning and development is both a corporate and individual responsibility, staff are encouraged to improve professional, technical and personal skills. Development opportunities include on-the-job training, private study, participation in organisational committees, conferences, seminars, working groups and training courses and programs.

During the year, over a hundred training courses provided staff with the opportunity to enhance their professional, technical and personal skills and career prospects, while contributing to the improved performance of the Corporation.

Manager's forums were held during the year to enhance the skills of our managers and supervisors. The forum topics included:

- Occupational Health and Safety Responsibilities for Supervisors and Managers;
- Managing the Generations;

- Management and Administration of Sick Leave;
- Managing Workplace Conflict;
- Giving and Receiving Feedback; and
- Grievance Handling.

External Study Assistance

NSW Lotteries' Assistance with External Study Program provides financial assistance and leave to employees who undertake eligible courses of study. During the year, 11 staff members received support for approved courses of study that were relevant to NSW Lotteries' business goals and the employee's work responsibilities. Courses covered a broad range of activities including Business Administration, Information Technology, Human Resources and Finance.

This program is a valuable means of contributing to the ongoing development of staff and provides all employees with another opportunity to upgrade their skills and knowledge.

University Scholarship Program

In early 2005, NSW Lotteries joined the University of New South Wales Co-Op Program. This is a scholarship program that provides industry training to exceptional undergraduate students. Scholars undertake structured industrial training placements each year, of approximately six months duration. The first student undertook industrial training with the Corporation's Marketing and Sales Division from January 2005 to June 2005. A scholarship will be provided for the duration of the four-year program.

Employee Assistance Program

The Employee Assistance Program has been in operation for five years. It provides a voluntary, confidential, free counselling and advisory service for employees seeking professional assistance for personal or work related problems. During the year, information sessions were held for all employees to promote awareness of this program.

Long Service Awards

In conjunction with the Employee of the Year ceremony, four long serving employees were recognised and presented with a gift for their contributions and service to NSW Lotteries. Robert Beecroft reached 40 years service, while Christine Harris, Mark Carter and Steven Nelson celebrated 25 years service.



Our long serving employees who were recognised this year were Steve Nelson, Christine Harris, Mark Carter and Bob Beecroft

Employee Reward and Recognition

Our Employee Reward and Recognition Program has operated for five years. The program provides a formal framework for recognition and acknowledgement of special contributions made by staff members towards the achievement of corporate goals and objectives. Awards are made in four categories - Achievement, Innovation, Quality and Customer Service.

Throughout the year, many nominations were received, with eight employees recognised for excellence or for their suggestions to improve service or make operations more efficient.

Employee Of The Year

Employee Of The Year is the major award in the program. It is designed to give added incentive for above average performance and is based on outstanding individual performance or major contribution to corporate performance during the year.

This year, Help Desk Manager Colin Hadland was named as Employee Of The Year. The award was presented by the Chairman of the Board, John Bagshaw, in a ceremony attended by a large number of staff.

Colin was recognised for his contribution in a number of areas. As Manager of the Help Desk Team, his leadership and organisational skills allowed his team to provide a stable local computer environment. He helped to implement a new records management system and improve the performance of the Pick and Pack system at our Lidcombe Distribution Centre.

Colin was also integrally involved in the upgrade of the NSW Lotteries website, performing functions that were previously outsourced, and which resulted in better service provision and reduced operational costs for the business.

Colin is recognised as a dedicated and professional employee for his skilled and cheerful technical service and was a worthy winner of this year's award.

FINANCIAL REPORT

For the year ended 30 June 2005

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STATEMENT BY BOARD OF DIRECTORS

INDEPENDENT AUDIT REPORT

In accordance with a resolution of the Directors of New South Wales Lotteries Corporation and pursuant to Section 41C (1B) and (1C) of the Public Finance and Audit Act 1983, we state that:

- 1 The attached is a general purpose Financial Report and presents a true and fair view of the financial position of NSW Lotteries Corporation at 30 June 2005 and the results of its financial performance and transactions for the year then ended;
- 2 The Financial Report has been prepared in accordance with the provisions of the Public Finance and Audit Act 1983 and the Public Finance and Audit Act Regulation 2000;
- 3 The Financial Report has been prepared in accordance with Australian Accounting Standards, Urgent Issues Group Consensus Views and authoritative pronouncements of the Australian Accounting Standards Board;
- 4 We are not aware of any circumstances which would render any particulars included in the Financial Report to be misleading or inaccurate; and
- 5 There are reasonable grounds to believe that NSW Lotteries Corporation will be able to pay its debts as and when they fall due.

Signed in accordance with a resolution of the Board of Directors.

Dated at Sydney this Twenty Second day of September 2005.

J R Bagshaw
Chair

M A Howell
Director and Chief
Executive Officer



GPO BOX 12
SYDNEY NSW 2001

INDEPENDENT AUDIT REPORT NEW SOUTH WALES LOTTERIES CORPORATION

To Members of the New South Wales Parliament

Audit Opinion

In my opinion, the financial report of the New South Wales Lotteries Corporation:

- (a) presents fairly the Corporation's financial position as at 30 June 2005 and its financial performance and cash flows for the year ended on that date, in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia, and
- (b) complies with section 41B of the *Public Finance and Audit Act 1983* (the Act).

My opinion should be read in conjunction with the rest of this report.

The Board's Role

The financial report is the responsibility of the members of the Board of the New South Wales Lotteries Corporation. It consists of the statement of financial position, the statement of financial performance, the statement of cash flows and the accompanying notes.

The Auditor's Role and the Audit Scope

As required by the Act, I carried out an independent audit to enable me to express an opinion on the financial report. My audit provides *reasonable assurance* that the financial report is free of *material* misstatement.

My audit accorded with Australian Auditing and Assurance Standards and statutory requirements, and I:

- evaluated the accounting policies and significant accounting estimates used by the Board in preparing the financial report, and
- examined a sample of the evidence that supports the amounts and other disclosures in the financial report.

An audit does *not* guarantee that every amount and disclosure in the financial report is error free. The terms 'reasonable assurance' and 'material' recognise that an audit does not examine all evidence and transactions. However, the audit procedures used should identify errors or omissions significant enough to adversely affect decisions made by users of the financial report or indicate that the Board members had not fulfilled their reporting obligations.

My opinion does *not* provide assurance:

- about the future viability of the Corporation,
- that it has carried out its activities effectively, efficiently and economically, or
- about the effectiveness of its internal controls.

Audit Independence

The Audit Office complies with all applicable independence requirements of Australian professional ethical pronouncements. The Act further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General, and
- mandating the Auditor-General as auditor of public sector agencies but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Audit Office are not compromised in their role by the possibility of losing clients or income.

A Oyetunji CPA
Director, Financial Audit Services

SYDNEY
23 September 2005

STATEMENT OF FINANCIAL PERFORMANCE

For the year ended 30 June 2005

	Notes	2005 \$'000	2004 \$'000
Revenues from ordinary activities			
Product Sales	1(b)	1,148,361	1,137,042
Cost of Sales	3(b)	(1,047,561)	(1,036,656)
Gross Profit		100,800	100,386
Other Revenues from ordinary activities	2, 3(a)	23,487	21,960
Total Revenues from ordinary activities		124,287	122,346
Expenses from ordinary activities			
Retail Network		(34,142)	(35,081)
Printing & Distribution		(5,745)	(6,690)
Administration		(31,770)	(30,696)
Total Expenses from ordinary activities	3(b)	(71,657)	(72,467)
Profit from ordinary activities before related income tax equivalent expense		52,630	49,879
Less Income tax equivalent expense relating to ordinary activities	4(a)	(14,524)	(14,401)
Net profit		38,106	35,478
Increase in asset revaluation reserve	13	3,753	-
Total valuation adjustments recognised directly in equity		3,753	-
Total changes in equity other than those resulting from transactions with owners as owners		41,859	35,478

The Statement of Financial Performance should be read in conjunction with the Notes to the Financial Statements .

STATEMENT OF FINANCIAL POSITION

As at 30 June 2005

	Notes	2005 \$'000	2004 \$'000
Current Assets			
Cash Assets	5	157,015	164,422
Receivables		6,380	3,372
Other Financial Assets	6	2,567	2,321
Other		329	414
Total Current Assets		166,291	170,529
Non - Current Assets			
Receivables		2,073	2,073
Other Financial Assets	6	32,266	26,960
Property, Plant and Equipment	8	36,594	37,160
Tax Assets	4(d)	7,225	7,336
Other	9	9,898	5,493
Total Non - Current Assets		88,056	79,022
Total Assets		254,347	249,551
Current Liabilities			
Payables	10	93,851	96,562
Tax Liabilities	4(b)	4,519	623
Provisions	11	76,617	83,236
Total Current Liabilities		174,987	180,421
Non - Current Liabilities			
Payables	10	17,896	16,386
Tax Liabilities	4(c)	223	124
Provisions	11	4,327	3,619
Total Non - Current Liabilities		22,446	20,129
Total Liabilities		197,433	200,550
Net Assets		56,914	49,001
Equity			
Contributed Equity	12	-	-
Reserve	13	7,874	4,121
Retained Profits	14	49,040	44,880
Total Equity		56,914	49,001

The Statement of Financial Position should be read in conjunction with the Notes to the Financial Statements.

STATEMENT OF CASH FLOWS

For the year ended 30 June 2005

	Notes	2005 \$'000	2004 \$'000
Cash Flows from Operating Activities			
Receipts from customers		1,188,433	1,187,095
Payments to suppliers and employees		(139,453)	(137,127)
Prizes paid to customers		(681,281)	(683,508)
Duty payments to Governments		(287,128)	(283,833)
Goods & Services tax paid		(47,098)	(45,109)
Income tax equivalent paid		(10,418)	(16,195)
Investment revenue received		8,925	8,226
Investment revenue credited to prize funds		(5,178)	(4,921)
Other income received		9,761	10,534
Net cash provided by Operating Activities	(a)	36,563	35,162
Cash Flows from Investing Activities			
Proceeds from sale of plant and equipment		431	558
Payment for investments		(5,552)	(5,365)
Payment for property, plant and equipment		(1,818)	(5,393)
Payments of deferred expenditure		(383)	(522)
Net cash used in Investing Activities		(7,322)	(10,722)
Cash Flows from Financing Activities			
Dividends paid		(37,204)	(24,504)
Net cash used in Financing Activities		(37,204)	(24,504)
Net (Decrease) in cash held		(7,963)	(64)
Cash at the beginning of the financial period		159,183	159,247
Cash at the end of the financial period	(b)	151,220	159,183
Notes to the Statement of Cash Flows			
(a) Reconciliation of net cash provided by operating activities to profit from ordinary activities			
Net profit		38,106	35,478
<i>Adjustments for non - cash items:</i>			
Depreciation		5,659	5,229
Amortisation of deferred expenditure		348	299
Increase/(Decrease) in income tax provided		3,896	(6,163)
Decrease in deferred taxes payable		210	4,369
Loss on sale of plant and equipment		47	55
<i>Changes in Assets and Liabilities</i>			
(Increase)/Decrease in receivables		(3,008)	10,145
(Increase) in other assets		(4,285)	(1,925)
(Decrease) in payables		(5,141)	(12,309)
Increase/(Decrease) in provisions		731	(16)
Net cash provided by Operating Activities		36,563	35,162
(b) Reconciliation of cash at the end of the financial year with related items in the Statement of Financial Position.			
<i>Cash comprises:</i>			
Cash Assets		157,015	164,422
Cash Book		(5,795)	(5,239)
Cash at the end of the financial period		151,220	159,183

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2005

New South Wales Lotteries Corporation (NSW Lotteries) is a Statutory State Owned Corporation established on 1st January 1997 under the provisions of the New South Wales Lotteries Corporatisation Act, 1996.

Note 1 Statement of Significant Accounting Policies

(a) Basis of Accounting

The Financial Report is a general purpose financial report which has been prepared on an accrual basis and in accordance with the New South Wales Lotteries Corporatisation Act, 1996, Public Finance and Audit Act, 1983, regulations issued thereunder, Australian Accounting Standards, Urgent Issues Group Consensus Views and other authoritative pronouncements of the Australian Accounting Standards Board.

The Financial Report has been prepared on the basis of historical cost and has not been adjusted to take account of changing money values or valuations of non-current assets, except where stated.

(b) Revenue recognition

Revenues are recognised at the fair value of the consideration received, net of the amount of Goods and Services Tax (GST).

Product Sales (Subscriptions)

Revenue from product sales is recognised exclusive of GST, which is charged on the basis of operator margin. Revenue from Instant Scratchies is recognised when tickets are sold. For all other products, revenue is recognised when each game is drawn.

Investment Revenue

Investment revenue is recognised as it accrues, taking into account the effective yield on the financial asset.

Sale of non-current assets

The gross proceeds of non-current asset sales are included as revenue at the date control of the asset passes to the buyer, usually when an unconditional contract of sale is signed. The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal.

(c) Receivables

All Receivables are carried at cost. Revenue from product sales is due for collection from retailers each week. Collectibility of receivables is regularly reviewed and debts which are known to be uncollectible are written off.

(d) Income Tax Equivalent

NSW Lotteries is exempt from Commonwealth Taxation, however, pursuant to the State Owned Corporations Act, 1989, the Corporation is subject to the National Tax Equivalent Regime.

NSW Lotteries adopts the liability method of tax effect accounting.

Income tax equivalent expense, as shown in Note 4, is calculated on profit from ordinary activities adjusted for permanent differences between taxable income and accounting profit. The effect of timing

differences, which arise from items being brought to account in different years for income tax equivalent and accounting purposes, is carried forward in the Statement of Financial Position as a future income tax benefit or a deferred income tax provision. Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt.

(e) Investments

Current

Investments, comprising negotiable securities expected to be realised within one year are cash-equivalent assets carried at market value. Investments comprising fixed interest deposits expected to mature within one year are not cash-equivalent assets and are carried at cost.

Non-Current

Investments, comprising fixed interest deposits expected to mature after one year are not cash-equivalent assets and are carried at cost.

(f) Property, Plant and Equipment

Revaluations of Physical Non-Current Assets

Property, plant and equipment is measured at fair value in accordance with AASB 1041 and TPP 03-02. At each reporting date the value of each class of physical non-current assets is reviewed to ensure that its carrying amount does not materially differ from fair value at that date. Revaluation increments are recognised in the asset revaluation reserve; decrements exceeding previous revaluation increments are recognised as expenses.

Depreciation

Depreciation is applied on the straight line basis over the estimated useful life of the asset to the Corporation.

The useful lives of each class of assets are:

Buildings	30 to 40 years
Leasehold improvements	the leased term
Computer equipment (including software)	4 to 10 years
Other equipment	3 to 7 years

(g) Deferred Expenditure

Expenditures associated with significant product and technological developments are deferred to the extent that they are recoverable out of future sales and other revenues; do not relate solely to sales which have been already brought to account; and contribute to the future earning capacity of the Corporation.

Deferred expenditure is amortised over the period in which the benefits are expected to be realised or three years, whichever is the shorter.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2005

Note 1 Statement of Significant Accounting Policies *continued*

(h) Payables

All payables are carried at cost which is the fair value of the consideration to be paid in the future for goods and services rendered, whether or not yet billed to the Corporation.

(i) Prizes

For all products, the prescribed percentage of subscriptions payable as prizes is allocated to the respective prize account from which payment to prize winners is made.

Unpaid Prizes

Unpaid Prizes represents prizes that have been won but which have not yet been claimed by prize winners up to twelve months after the drawing of the relevant game or, in relation to Instant Scratchies, after the game was closed, together with prize amounts that have jackpotted at the reporting date.

Prize Funds

Prize Funds, comprise the balance of prescribed allocations, prizes unclaimed after twelve months from the drawing of the relevant game or, in relation to Instant Scratchies, from the date the game was closed and revenues generated through the investment of prizes payable, reduced by payments of additional prizes.

(j) Employee Benefits

Salaries and annual leave

Salaries and annual leave (including any associated on-costs) represent present obligations resulting from employees' services provided up to the reporting date calculated at remuneration rates that the Corporation expects to pay when the liability is settled.

Long Service Leave

Long service leave is provided for all employees with five or more years of service with the Corporation or the former entity. The liability is measured (including on-costs) as the amount unpaid at the reporting date calculated at remuneration rates that the Corporation expects to pay when the liability is settled. This method of measuring the liability is not materially different from the amount determined by using the present value basis of measurement.

Superannuation

The Corporation contributes to various employee superannuation funds and charges are expensed as incurred. Contributions are held by the Pillar Administration in Investment Reserve Accounts.

(k) Financial Instruments

Financial Instruments give rise to financial assets of the Corporation and financial liabilities owing to other parties and account for the majority of the Corporation's current assets and current liabilities. In accordance with AAS 33 "Presentation and Disclosure of Financial Instruments", information is disclosed in Note 7 in respect of the credit risk and interest rate risk. All such amounts are carried in the Financial Report at the values disclosed in the Statement of Financial Position and applicable Notes to the Financial Statements.

(l) Goods and Services Tax

Receivables and payables are stated with the amount of the Goods and Services Tax (GST) included. Revenues, expenses and all other assets and liabilities are recognised net of the amount of GST except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the item of expense.

The net amount of GST recoverable from, or payable to, the ATO is included as a receivable, or payable, in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable, to the ATO are classified as operating cash flows.

(m) Provision for Dividends

Dividends declared, determined or publicly recommended on or before the reporting date are recognised as a liability for the entire amount that remains undistributed at that date.

(n) Comparatives

Comparatives have been reclassified and repositioned for consistency with current year disclosures.

(o) Roundings of Amounts

Where appropriate, all amounts shown in this Financial Report have been rounded to the nearest thousand dollars.

2005	2004
\$'000	\$'000

Note 2 Revenues from ordinary activities

Other Revenues, amongst other items, include:

From operating activities:

Investment revenue - other parties	8,925	8,226
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From outside operating activities:

Gross proceeds from the sale of plant and equipment	431	558
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Note 3 Profit from ordinary activities before income tax equivalent expense

(a) Individually significant revenue included in profit from ordinary activities before income tax equivalent expense

Increase in prepaid superannuation (Income tax effect- nil) (refer also to Note 9(b))	4,370	2,642
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(b) Profit from ordinary activities before income tax equivalent expense has been arrived at after charging, amongst other items:

Cost of Sales:

Retailer Commission	(79,193)	(74,109)
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Prizes	(680,570)	(677,159)
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Government Duties	(287,798)	(285,388)
-------------------	-----------	-----------

	<u>(1,047,561)</u>	<u>(1,036,656)</u>
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Employee Benefits	1,792	1,266
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Superannuation	1,454	1,084
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Depreciation - property, plant and equipment (refer Note 8)	5,659	5,229
---	-------	-------

Amortisation - deferred expenditure (refer Note 9(a))	348	299
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Loss on sale of plant and equipment	47	55
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Lease rental expenses - operating leases	561	606
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Consultancies	69	12
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Bad debts	-	11
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NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2005

	2005 \$'000	2004 \$'000
Note 4 Taxation		
(a) Income tax equivalent expense		
Prima facie income tax equivalent expense calculated at 30% (2004 - 30%) on the profit from ordinary activities	15,789	14,964
<i>Increase in income tax equivalent expense due to permanent differences (non-tax deductible or assessable items):</i>		
Increase in prepaid superannuation	(1,311)	(608)
Non-deductible depreciation	12	12
Other	34	33
	14,524	14,401
<i>Income tax equivalent expense attributable to profit from ordinary activities is made up of:</i>		
Current income tax equivalent provision	14,314	10,032
Future income tax benefit	111	4,288
Deferred income tax provision	99	81
	14,524	14,401
(b) Current Tax Liabilities		
Provision for current income tax		
<i>Movements during the year:</i>		
Balance at the beginning of the year	623	6,786
Less instalments of income tax paid	(10,418)	(16,195)
Current year's income tax provision on profit from ordinary activities	14,314	10,032
	4,519	623
(c) Deferred Tax Liabilities		
Provision for deferred income tax		
<i>Provision for deferred income tax comprises the estimated liability at the applicable rate of 30% (2004 - 30%) on the following item:</i>		
Income currently non-assessable for tax but booked as revenue for accounting purposes	223	124
(d) Deferred Tax Assets		
Future income tax benefit		
<i>Future income tax benefit comprises the estimated future benefit at the applicable rate of 30% (2004 - 30%) on the following items:</i>		
Provisions and accrued employee benefits not currently deductible	1,843	1,639
Jackpotting unpaid prizes not currently deductible	2,862	2,035
Prize Funds components not currently deductible	2,340	3,535
Difference in depreciation of property, plant and equipment and amortisation of deferred expenditure for accounting and income tax purposes	180	127
	7,225	7,336

2005	2004
\$'000	\$'000

Note 5 Cash Assets

Cash at bank and on hand	131	134
Investments (refer Note 1(e))	156,884	164,288
	157,015	164,422

Note 6 Other Financial Assets

Current Assets

Investments (refer Note 1(e))	2,567	2,321
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Non - Current Assets

Investments (refer Note 1(e))	32,266	26,960
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Note 7 Disclosure of Financial Instruments

(a) Interest rate risk

Interest rate risk is the risk that the value of the financial instruments will fluctuate due to changes in market interest rates. The Corporation's exposure to interest rate risks and the effective interest rates of financial assets and liabilities at reporting date are as follows:

30 June 2005

Financial Instrument	Note	Floating Interest Rate \$'000	Fixed 1 Year or Less \$'000	Over 1 to 5 Years \$'000	More than 5 Years \$'000	Non Interest Bearing \$'000	Carrying amount as per Statement of Financial Position \$'000
Financial Assets							
Cash Assets	5	23,171	133,713	-	-	131	157,015
Other Financial assets	6	-	2,567	21,360	10,906	-	34,833
Receivables		-	-	-	-	8,453	8,453
Total Financial Assets		23,171	136,280	21,360	10,906	8,584	200,301
Weighted Effective Interest rate		5.50%	5.84%	5.81%	5.58%		
Financial Liabilities							
Payables	10	-	-	-	-	111,747	111,747
Tax Liabilities	4(b)	-	-	-	-	4,519	4,519
Provision for Dividends	15	-	-	-	-	33,946	33,946
Total Financial Liabilities		-	-	-	-	150,212	150,212

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2005

Note 7 Disclosure of Financial Instruments *continued*

30 June 2004

Financial Instrument	Note	Floating Interest Rate \$'000	Fixed 1 Year or Less \$'000	Over 1 to 5 Years \$'000	More than 5 Years \$'000	Non Interest Bearing \$'000	Carrying amount as per Statement of Financial Position \$'000
Financial Assets							
Cash Assets	5	8,175	156,113	-	-	134	164,422
Other Financial Assets	6	-	2,321	16,609	10,351	-	29,281
Receivables		-	-	-	-	5,445	5,445
Total Financial Assets		8,175	158,434	16,609	10,351	5,579	199,148
Weighted Effective Interest rate		5.25%	5.65%	5.70%	5.70%		
Financial Liabilities							
Payables	10	-	-	-	-	112,948	112,948
Tax Liabilities	4(b)	-	-	-	-	623	623
Provision for Dividends	15	-	-	-	-	37,204	37,204
Total Financial Liabilities		-	-	-	-	150,775	150,775

(b) Credit Risk

The Corporation's maximum exposure to credit risk is represented by the carrying amounts of the financial assets included in the Statement of Financial Position. Credit risk represents the loss that would be recognised if parties holding financial assets of NSW Lotteries at reporting date fail to honour their obligations under contract.

NSW Lotteries minimises its credit risk on receivables by undertaking its sales transactions with a large number of retailers and requiring those retailers to remit outstandings on a weekly basis. The Corporation's investments included in current assets and shown as cash assets and other financial assets are held in A grade securities and deposits, and will mature or be sold generally within twelve months. Investments to be retained for longer than twelve months are held in A grade deposits and earn a fixed rate of interest. The Corporation is therefore not materially exposed to credit risk.

(c) Net Fair Values of Financial Assets and Liabilities

Net fair values of financial assets and liabilities are determined by the Corporation on the following bases:

Investments included in Cash Assets are traded in an organised financial market and are carried at market value. Investments in fixed interest deposits are shown as Other Financial Assets and are carried at cost.

Cash at Bank and on Hand, Receivables, Cash Book, Trade Creditors and Accruals, Government Duties, Sales in Advance, Unpaid Prizes, Other Payables, Provision for Current Income Tax and Provision for Dividends are carried at historical cost.

2005	2004
\$'000	\$'000

Note 8 Property, Plant and Equipment

Land & Buildings

Leasehold land - at fair value	5,850	4,600
Buildings - at fair value	13,759	11,243
Less accumulated depreciation	(4,309)	(3,920)
	9,450	7,323
Leasehold improvements - at fair value	101	101
Less accumulated amortisation	(78)	(66)
	23	35
Total Land & Buildings	15,323	11,958

Plant and Equipment

Computer equipment (including software) - at fair value	36,073	35,230
Less accumulated depreciation	(17,233)	(12,770)
	18,840	22,460
Other plant and equipment - at fair value	7,171	6,890
Less accumulated depreciation	(4,740)	(4,148)
	2,431	2,742
Total Plant and Equipment	21,271	25,202
Total Property, Plant and Equipment Net Book Value	36,594	37,160

Valuations of Land & Buildings

Leasehold land and buildings are measured on a fair value basis, being the amount for which the assets could be exchanged between knowledgeable and willing parties in an arm's-length transaction, having regard to the highest and best use of the asset for which other parties would be willing to pay. The current year's independent valuation was determined by Paul Goldsmith AAPI, Certified Practising Valuer No 3099, taking into account the depreciation of buildings during the year and any significant market movements. The valuation, based on 30 June 2005, resulted in a value of \$5,850,000 for the leasehold land and \$9,450,000 for the buildings being the value attributed to the balance of their economic life.

Leasehold Improvements

Estimated fair value of leasehold improvements at directors' valuation is \$23,000 (2004 - \$35,000)

Plant and Equipment

Estimated fair value of plant and equipment at directors' valuation is \$21,271,000 (2004 - \$25,202,000).

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2005

	2005 \$'000	2004 \$'000
Note 8 Property, Plant and Equipment <i>continued</i>		
Reconciliations:		
Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:		
Leasehold land - at fair value		
Carrying amount at the beginning of the year	4,600	4,600
Revaluation increment	1,250	-
Carrying amount at the end of the year	5,850	4,600
Buildings - at fair value		
Carrying amount at the beginning of the year	7,323	7,712
Additions	13	-
Revaluation increment	2,503	-
Depreciation	(389)	(389)
Carrying amount at the end of the year	9,450	7,323
Leasehold improvements - at fair value		
Carrying amount at the beginning of the year	35	25
Additions	-	30
Amortisation	(12)	(20)
Carrying amount at the end of the year	23	35
Computer equipment (including software) - at fair value		
Carrying amount at the beginning of the year	22,460	22,376
Additions	843	4,013
Depreciation	(4,463)	(3,929)
Carrying amount at the end of the year	18,840	22,460
Other plant and equipment - at fair value		
Carrying amount at the beginning of the year	2,742	2,896
Additions	962	1,350
Disposals	(478)	(613)
Depreciation	(795)	(891)
Carrying amount at the end of the year	2,431	2,742

2005 **2004**
\$'000 **\$'000**

Note 9 other

Deferred expenditure (refer Note 9(a))	600	565
Prepaid superannuation (refer Note 9(b))	9,298	4,928
	9,898	5,493

(a) Deferred expenditure

Deferred expenditure	1,665	1,283
Less accumulated amortisation	1,065	718
	600	565

Reconciliation:

Reconciliation of the carrying amount for deferred expenditure is set out below:

Carrying amount at the beginning of the year	565	342
Additions	383	522
Amortisation	(348)	(299)
Carrying amount at the end of the year	600	565

(b) Prepaid superannuation

Superannuation contributions are made by NSW Lotteries to the appropriate employee superannuation schemes and are charged as an expense when incurred. The contributions are held by Pillar Administration in Investment Reserve Accounts.

The actuarial firm, Mercer Human Resources Consulting Pty Ltd, has completed an assessment of the gross superannuation liabilities for the defined benefit schemes administered by Pillar Administration for the year ended 30 June 2005. The key assumptions underlying this assessment were:

	2004/2005	Thereafter
	%	%
Investment Growth	7.0	7.0
Salary Growth	4.0	4.0
Consumer Price Index	2.5	2.5

The Corporation fully funds the employer's liability for superannuation. Based on the actuarial assessment by Mercer Human Resources Consulting Pty Ltd, the Corporation has prepaid contributions totalling \$9,298,136 in the Reserve Accounts. The breakdown between the funds is:

	2005	2005	2005	2004
	\$'000	\$'000	\$'000	\$'000
	Employer	Gross Past	Prepaid	Prepaid
	Reserve	Service	Contributions	Contributions
	Account	Liability		
State Superannuation Fund	32,378	23,839	8,539	4,767
State Authorities Superannuation Scheme	4,098	3,729	369	-
State Authorities Non-Contributory Superannuation Scheme	2,137	1,747	390	161
	38,613	29,315	9,298	4,928

Amounts representing prepaid superannuation contributions are recognised as an asset.

The individually significant revenue item of \$4,369,768 referred to in Note 3 (a) reflects the increase in the prepaid superannuation asset during the year. In the previous year, when no employer contributions were paid into these three Schemes, the individually significant revenue item of \$2,641,932 was made up of \$614,287 representing contributions that otherwise would have been paid together with an increase of \$2,027,645 in the prepaid superannuation asset during that year.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2005

	2005 \$'000	2004 \$'000
Note 10 Payables		
Current		
Cash Book	5,795	5,239
Trade Creditors and Accruals	8,298	9,611
Government Duties	25,646	24,976
Sales in Advance	6,922	10,641
Unpaid Prizes	47,114	45,951
Other Payables	76	144
	93,851	96,562

Non - Current

Unpaid Prizes	17,896	16,386
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Note 11 Provisions

Current

Employee Benefits (refer Note 16(a))	1,685	1,662
Prize Funds	40,986	44,370
Provision for Dividends (refer Note 15)	33,946	37,204
	76,617	83,236

Non - Current

Employee Benefits (refer Note 16(b))	4,327	3,619
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Reconciliations:

Reconciliations of the carrying amounts for each class of provision except for employee provisions are set out below:

Prize Funds

Balance at the beginning of the year	44,370	48,828
Allocations and transfers made during the year	55,730	55,782
Payments made during the year	(59,114)	(60,240)
Balance at the end of the year	40,986	44,370

Provision for Dividends

Balance at the beginning of the year	37,204	24,504
Provisions made during the year	33,946	37,204
Payments made during the year	(37,204)	(24,504)
Balance at the end of the year	33,946	37,204

Note 12 Contributed Equity

Authorised Capital

100 Ordinary Shares of \$1.00 each - \$100 (2004 - \$100)

Issued and Paid-up Capital

2 Ordinary Shares of \$1 each fully paid - \$2 (2004 - \$2)

New South Wales Lotteries Corporation was corporatised on 1 January 1997 with authorised capital of 100 ordinary shares at \$1 each. The issued capital of two (2) \$1 shares are issued to the Minister for Finance and the Special Minister of State on behalf of the NSW Government. The \$2 issued share capital has been rounded to zero in the Statement of Financial Position.

2005	2004
\$'000	\$'000

Note 13 Reserve

Asset Revaluation Reserve

7,874	4,121
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Asset Revaluation Reserve - reconciliation

Balance at the beginning of the year

4,121	4,121
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Increment on revaluation of land and buildings.

3,753	-
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Balance at the end of the year

7,874	4,121
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Nature and Purpose of Asset Revaluation Reserve

The purpose of the asset revaluation reserve is to record increments and decrements as a result of the revaluation of physical non-current assets measured at fair value in accordance with AASB 1041 and TPP 03-02.

Note 14 Retained Profits

Retained Profits at the beginning of the year

44,880	46,606
--------	--------

Net profit

38,106	35,478
--------	--------

Total available for distribution

82,986	82,084
--------	--------

NSW Government - Dividends Provided

(33,946)	(37,204)
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Retained Profits at the end of the year

49,040	44,880
--------	--------

Note 15 NSW Government Dividends

Dividends provided

33,946	37,204
---------------	---------------

Note 16 Employee Benefits

(a) Current

Provision for Annual Leave

1,252	1,190
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Provision for Long Service Leave

433	472
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1,685	1,662
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(b) Non - Current

Provision for Long Service Leave

4,327	3,619
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Note 17 Related Parties - Directors

The names of each person holding the position of director of the Corporation during the financial year are:

Messrs J. Bagshaw, M. Howell, D. McCormack, J. Johnson, M. Cockburn and Ms B. Boezeman, A. Payne and S. Walsh. During the year Ms A. Payne's term of appointment expired.

The total emoluments paid or payable, directly or indirectly, by the Corporation to directors excluding the salary of the full time director was \$376,813 (2004 - \$379,368).

Note 18 Auditors' remuneration

Audit fees: Auditors of the Corporation (audit and review of financial report)

123	120
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Other services: Auditors of the Corporation (supervision of draws)

130	127
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253	247
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NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2005

	2005 \$'000	2004 \$'000
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Note 19 Commitments not provided for in the Financial Statements

Commitments under operating leases for motor vehicles, plant, office and warehouse accommodation at 30 June 2005:

Payable within 1 year	592	590
Payable 1 to 5 years	1,001	1,499
	1,593	2,089

Note 20 Contingent Liabilities

The directors are not aware of any contingent liabilities.

Note 21 Contingent Assets

The total commitments under operating leases of \$1,593,427 (2004 - \$2,089,000) shown in Note 19 include \$144,857 (2004 - \$189,909) in input tax credits that are expected to be recoverable from the Australian Taxation Office under the Goods and Services Tax legislation.

At the date of this report there were no commitments for the purchase of non-current assets (2004 - Nil) and no input tax credits are expected to be recoverable from the Australian Taxation Office under the Goods and Services Tax legislation.

Note 22 Segment Reporting

NSW Lotteries Corporation operates solely in the business of selling Lottery tickets; its customers are located in the State of New South Wales and the Australian Capital Territory.

Note 23 Impact of adopting Australian Equivalents to the International Financial Reporting Standards

Application and management of AEIFRS

The Corporation will apply the Australian Equivalents to the International Financial Reporting Standards (AEIFRS) from the reporting year commencing 1 July 2005.

The Corporation is managing the transition to the new standards by allocating internal resources and sought professional advice to analyse the pending standards and Urgent Issues Group Abstracts to identify key areas regarding policies, procedures, systems and financial impacts affected by the transition.

True and fair presentation

The impact of the transition to AEIFRS, including the transitional adjustments are based on AEIFRS that management expect to be in place when preparing the first complete AEIFRS Financial Report. Only a complete set of financial statements and notes together with comparative balances can provide a true and fair presentation of the Corporation's financial position, results of operations and cash flows in accordance with AEIFRS.

Exercise of Judgement

There is a significant amount of judgement involved in the preparation of the reconciliations from current Australian GAAP to AEIFRS. Consequently, the final reconciliations for the year ending 30 June 2006 may vary materially from the reconciliations provided in this Note.

Key differences

The key differences in accounting policies that are expected to arise from adopting AEIFRS occur because of different requirements compared to the existing Australian Accounting Standards. Based on current information the following key differences in accounting policies are expected to arise :

- AASB 1, First-time Adoption of Australian Equivalents to International Financial Reporting Standards, requires retrospective application of the new AEIFRS from 1 July 2005.
- AASB 108, Accounting Policies, Changes in Accounting Estimates and Errors, requires that changes in accounting policies will be recognised by restating comparatives rather than making current year adjustments with note disclosure of prior year effects.

Note 23 Impact of adopting Australian Equivalents to the International Financial Reporting Standards *continued*

- AASB 110, Events after Balance Date, states that only dividends "declared" or appropriately "authorised" before the reporting date can be recognised. This is more restrictive than the current approach which is based on "valid expectations". However this change is not expected to impact on dividend recognition as the signing of the Statement of Corporate Intent before the reporting date to which it relates, authorises the dividend and any change in the amount of the dividend after the reporting date constitutes an "adjusting event after the reporting date".
- AASB 112, Income Taxes, calculates income tax equivalent assets and liabilities by resorting to the differences in the tax and accounting values of assets and liabilities recognised in the Statement of Financial Position rather than focusing on amounts recognised in net profit. This approach may alter the current values of tax assets and liabilities.
- AASB 119, Employee Benefits, requires the defined benefit superannuation obligation to be discounted using the government bond rate as at each reporting date, rather than the long-term expected rate of return on scheme assets. This approach will reduce the defined benefit prepaid superannuation asset.

NSW Treasury is providing assistance to manage the transition by developing policies, including mandates of options; presenting training seminars; providing a website with up-to-date information to inform about any new developments; and establishing an International Accounting Standards Reference Panel to facilitate a collaborative approach to manage the change.

Impact of adopting Australian Equivalents to the International Financial Reporting Standards

The financial impacts of any known or reliably estimable information about the impacts on the Financial Report had it been prepared using AEIFRS are as follows:

a) Leased assets - Make good provisions

The Corporation has certain operating leases that require the asset to be returned to the lessor in its original condition. Under the Australian GAAP the costs of refurbishment are not recognised until the expenditure is incurred, whereas under AEIFRS a provision for refurbishment costs must be recognised over the period of the lease measured at the expected cost of refurbishment at each reporting date.

At 1 July 2004 a provision for make good costs associated with these operating leases of \$430,000 is expected to be recognised by the Corporation. The provision is expected to increase by \$106,000 for the year ended 30 June 2005 .

b) Intangible assets

Intangible assets are identifiable assets that are without physical substance; are separable from other assets; and arise from contractual or other legal rights. Intangible assets will be stated at cost less accumulated amortisation and impairment losses.

At 1 July 2004 a reallocation of the fair value of \$8,522,000 for software and software licences from plant and equipment to intangible assets is expected to be recognised by the Corporation. This reallocation is expected to increase by \$821,000 in respect of year ended 30 June 2005.

c) Employee benefits

Under AEIFRS the Corporation's net obligation to the defined benefit superannuation schemes will be calculated separately for each scheme by estimating the amount of future benefit that employees have earned in return for their services in the current and prior years, discounted to present value less the fair value of any assets of the schemes.

At 1 July 2004 the prepaid superannuation asset of \$4,928,000 will convert to a liability of \$339,000 due to a revised valuation procedure based on discounted long term Commonwealth Government bond yields rather than the presently projected investment earnings rates. The effect on retained profits expected to be recognised by the Corporation at 1 July 2004 is \$5,267,000.

At 30 June 2005 the prepaid superannuation asset has increased by \$4,370,000 to \$9,298,000 whilst the AEIFRS revised valuation procedure results in a liability of \$600,000. The effect on retained profits at 30 June 2005 is expected to be \$9,898,000.

d) Taxation

On transition to AEIFRS the balance sheet method of tax effect accounting will be adopted rather than the liability method currently applied under Australian GAAP. Under this method income tax expense for the year comprises current and deferred taxes. Current tax is the expected tax payable on the taxable income for the year using current tax rates. Deferred tax is provided using the balance sheet method providing for temporary differences between the carrying amount of assets and liabilities for reporting purposes and the amounts for taxation purposes. The amount of deferred tax provided will be based on the expected manner of realisation of the asset or settlement of the liability using current tax rates.

	Asset revaluation reserve Dr/(Cr)	Retained earnings Dr/(Cr)	Deferred tax asset Dr/(Cr)	Deferred tax Liability Dr/(Cr)
The tax effect of adopting AEIFRS expected to be recognised by the Corporation as at 1 July 2004 is as follows:				
Leased assets - make good		(129)	129	
Revaluation - land and buildings	1,053			(1,053)
Superannuation liability		(102)	102	
	1,053	(231)	231	(1,053)

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2005

Note 23 Impact of adopting Australian Equivalents to the International Financial Reporting Standards continued

e) The following tables set out the expected adjustments to the Statement of Financial Position and the Statement of Financial Performance of the Corporation at transition to AEIFRS as at 1 July 2004 and for the AEIFRS comparative year balance sheet as at 30 June 2005.

(i) Reconciliation of Equity	2004 \$'000	2004 \$'000	2004 \$'000	2005 \$'000	2005 \$'000	2005 \$'000
	AGAAP	Transition impact	AEIFRS	AGAAP	Transition impact	AEIFRS
Current Assets						
Cash Assets	164,422	-	164,422	157,015	-	157,015
Receivables	3,372	-	3,372	6,380	-	6,380
Other Financial Assets	2,321	-	2,321	2,567	-	2,567
Other	414	-	414	329	-	329
Total Current assets	170,529	-	170,529	166,291	-	166,291
Non - Current Assets						
Receivables	2,073	-	2,073	2,073	-	2,073
Other Financial Assets	26,960	-	26,960	32,266	-	32,266
Property, Plant and Equipment	37,160	(7,527)	29,633	36,594	(8,314)	28,280
Intangible Assets	-	8,522	8,522	-	9,343	9,343
Tax Assets	7,336	231	7,567	7,225	341	7,566
Other	5,493	(5,493)	-	9,898	(9,898)	-
Total Non - Current Assets	79,022	(4,267)	74,755	88,056	(8,528)	79,528
Total Assets	249,551	(4,267)	245,284	254,347	(8,528)	245,819
Current Liabilities						
Payables	96,562	-	96,562	93,851	-	93,851
Tax Liabilities	623	-	623	4,519	-	4,519
Provisions	83,236	769	84,005	76,617	1,136	77,753
Total Current Liabilities	180,421	769	181,190	174,987	1,136	176,123
Non - Current Liabilities						
Payables	16,386	-	16,386	17,896	-	17,896
Tax Liabilities	124	1,053	1,177	223	2,179	2,402
Provisions	3,619	-	3,619	4,327	-	4,327
Total Non - Current Liabilities	20,129	1,053	21,182	22,446	2,179	24,625
Total Liabilities	200,550	1,822	202,372	197,433	3,315	200,748
Net Assets	49,001	(6,089)	42,912	56,914	(11,843)	45,071
Equity						
Contributed Equity	-	-	-	-	-	-
Reserves	4,121	(1,053)	3,068	7,874	(2,179)	5,695
Retained Profits	44,880	(5,036)	39,844	49,040	(9,664)	39,376
Total Equity	49,001	(6,089)	42,912	56,914	(11,843)	45,071

Note 23 Impact of adopting Australian Equivalents to the International Financial Reporting Standards continued

(i) Reconciliation of Equity <small>continued</small>	2004	2004	2004	2005	2005	2005
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
	AGAAP	Transition impact	AEIFRS	AGAAP	Transition impact	AEIFRS
Asset Revaluation Reserve						
Tax effect accounting AASB 112 - Revaluation of property	4,121	(1,053)	3,068	7,874	(2,179)	5,695
Retained Profits - movements						
Retained Profits at the beginning of the year	46,606	-	46,606	44,880	-	44,880
Profit from ordinary activities after income tax equivalent	35,478	-	35,478	38,106	-	38,106
NSW Government - Dividend	(37,204)	-	(37,204)	(33,946)	-	(33,946)
Leased assets make good	-	-	-	-	(107)	(107)
Employee entitlement AASB 119	-	(5,267)	(5,267)	-	(9,898)	(9,898)
Tax effect accounting AASB 112 - Superannuation liability	-	102	102	-	180	180
Tax effect accounting AASB 112 - Leased assets make good	-	129	129	-	161	161
Retained Profits at the end of the year	44,880	(5,036)	39,844	49,040	(9,664)	39,376
(ii) Reconciliation of Profit for the year ended 30 June 2005				2005	2005	2005
				\$'000	\$'000	\$'000
				AGAAP	Transition impact	AEIFRS
Revenues from ordinary activities						
Product Sales				1,148,361	-	1,148,361
Cost of Sales				(1,047,561)	-	(1,047,561)
Gross Profit				100,800	-	100,800
Other Revenues from ordinary activities				23,487	(4,370)	19,117
Total Revenues from ordinary activities				124,287	(4,370)	119,917
Expenses from ordinary activities						
Retail Network				(34,142)	-	(34,142)
Printing & Distribution				(5,745)	-	(5,745)
Administration				(31,770)	(5,528)	(37,298)
Leased assets make good				-	(107)	(107)
Total Expenses from ordinary activities				(71,657)	(5,635)	(77,292)
Profit from ordinary activities before related income tax equivalent expense				52,630	(10,005)	42,625
Less Income tax equivalent expense relating to ordinary activities				(14,524)	341	(14,183)
Net profit				38,106	(9,664)	28,442
Increase in asset revaluation reserve				3,753	-	3,753
Total valuation adjustments recognised directly in equity				3,753	-	3,753
Total changes in equity other than those resulting from transactions with owners as owners				41,859	(9,664)	32,195

End of Audited Financial Statements

STATUTORY REPORTING APPENDIX

For the year ended 30 June 2005

ACCOUNTS PAYABLE PERFORMANCE

NSW Lotteries' policy is to pay all accounts within the suppliers' terms of trade. No interest was paid or payable as a result of late payment of accounts.

The following indicators summarise the Corporation's performance and give a snapshot of accounts payable by the Corporation at the end of each quarter and the indicative payment timeframe:

Ageing of Creditors at the end of each quarter	September 2004	December 2004	March 2005	June 2005
Current (within due date)	\$9,787,520	\$9,413,492	\$7,653,320	\$8,297,533
< 30 days overdue	Nil	Nil	Nil	Nil
30-60 days overdue	Nil	Nil	Nil	Nil
60-90 days overdue	Nil	Nil	Nil	Nil
> 90 days overdue	Nil	Nil	Nil	Nil

Accounts paid on time during each quarter	September 2004	December 2004	March 2005	June 2005
Target % for Accounts paid within 30 days	100%	100%	100%	100%
Actual % of Accounts paid within 30 days	100%	100%	100%	100%
Total dollars paid within 30 days	\$9,787,520	\$9,413,492	\$7,653,320	\$8,297,533
Total dollars paid	\$9,787,520	\$9,413,492	\$7,653,320	\$8,297,533

	Standard	Results 2002/2003	Results 2003/2004	Results 2004/2005
Number of complaints for late or non-payment	Less than 0.1% of all accounts	Nil Complaints	Nil Complaints	Nil Complaints

CONSULTANTS

CONSULTANTS EQUAL TO OR MORE THAN \$30,000

There was one consultancy costing equal to or more than \$30,000. The details are:

Category	Cost	Consultant	Nature of Project
Management Services	\$37,111	Ernst & Young	Review of Prize Payment process

CONSULTANCIES LESS THAN \$30,000

During the year, six other consultancies were engaged in the following areas:

Category	Cost
Engineering	\$10,200
Finance & Accounting/Tax	\$9,375
Information Technology	\$3,500
Management Services	\$9,063
Legal	Nil
Environmental	Nil
Organisational Review	Nil
Training	Nil
Total Consultancies less than \$30,000	\$32,138
TOTAL CONSULTANCIES	\$69,249

CREDIT CARD USE

During the year, credit card use within the Corporation was in accordance with the Premier's Memoranda and Treasurer's Directions.

EQUAL EMPLOYMENT OPPORTUNITY

2004/2005 Planned Results

A new Salaries, Allowances and Conditions of Employment Award for Corporation staff was settled during the year. The Award was amended to recognise the personal responsibilities of staff as carers and sought to balance these against the needs of the workplace. Grievance mechanisms were also reviewed and updated as part of the Award negotiations.

A Workforce Plan was initiated, with representatives from various work areas assisting to identify issues associated with the current workforce and actions that can be undertaken now to help build the workforce of the future.

Strategies for 2005/2006

Implementation of a Workforce Plan including:

- Establishing a stronger performance management culture to focus on outcomes, continuous improvement and individual development;
- Implementing specific actions such as incorporating knowledge strategies in succession plans for key positions; and
- Reducing skill gaps through targeted learning and development.

EEO Statistical Report

Table A. Trends in the Representation of EEO Groups¹

EEO Group	Benchmark or target	% of Total Staff ²			
		2002	2003	2004	2005
Women	50%	50%	51%	47%	46%
Aboriginal people and Torres Strait Islanders	2%	0%	0%	0%	0%
People whose first language was not English	20%	31%	29%	33%	33%
People with a Disability	12%	11%	7%	10%	10%
People with a Disability Requiring Work-Related Adjustment	7%	3.2%	2.7%	3%	2.9%

Table B. Trends in the Distribution of EEO Groups¹

EEO Group	Benchmark or target	Distribution Index ³			
		2002	2003	2004	2005
Women	100	82	82	82	83
Aboriginal people and Torres Strait Islanders	100	nc ⁴	nc ⁴	nc ⁴	nc ⁴
People whose first language was not English	100	88	85	89	87
People with a Disability	100	91	nc ⁴	nc ⁴	nc ⁴
People with a Disability Requiring Work-Related Adjustment	100	nc ⁴	nc ⁴	nc ⁴	nc ⁴

Notes:

1. Staff numbers are at 30 June 2005

2. Excludes casual staff

3. A Distribution Index of 100 indicates that the centre of the distribution of the EEO group across salary levels is equivalent to that of other staff. Values less than 100 mean that the EEO group tends to be more concentrated at lower salary levels than is the case for other staff. The more pronounced this tendency is, the lower the index will be. In some cases the index may be more than 100, indicating that the EEO group is less concentrated at lower salary levels

4. nc = Not Calculated. The Distribution Index is not calculated where the estimated number of staff in an EEO group is less than 20

EXEMPTIONS FROM THE REPORTING PROVISIONS

In accordance with section 7 (2) of the Annual Reports (Statutory Bodies) Act 1984, the Treasurer has exempted NSW Lotteries from disclosing in its Annual Report a detailed budget and an outline budget.

ETHNIC AFFAIRS PRIORITIES STATEMENT

NSW Lotteries conducts its affairs in recognition of the *Community Relations Commission and Principles of Multiculturalism Act 2000*. Each year, the Corporation develops an Ethnic Affairs Priorities Statement Plan, which identifies strategies to improve our services to the diverse community of NSW.

We report to the Community Relations Commission on the implementation of this plan and detail our progress in our Annual Report. The Corporation's Performance Report for fiscal 2005 follows:

STATUTORY REPORTING APPENDIX (continued)

For the year ended 30 June 2005

Ethnic Affairs Priorities Statement 2004 – 2005 Performance Report

Ethnic Affairs Initiative	Key Result Area	Strategies/Tasks	Responsibility	Resources/Budget	Timeline Indicators	Performance	Report	Timeline Indicators For fiscal 2006 (See Note 1 below)
1. Continue to provide CLAS community language speakers for customers of NSW Lotteries.	1. Social Justice (1.7 - Access to Interpreters & Translators)	<ol style="list-style-type: none"> 1. Recruitment & testing of interested staff. 2. Inform staff of CLAS speaker availability. 3. Monitor & report on CLAS speaker usage. 	Manager Human Resources	Salaries budget	<p>June 2005</p> <p>Circular to all staff of updated CLAS list.</p> <p>Report July 2005</p>	<p>Level of coverage</p> <p>Timely information dissemination</p> <p>Timeliness</p>	<p>Based on recorded practice, translation service provided to customers and agents using key community languages especially Mandarin and some European languages</p> <p>Information on available translators regularly updated</p> <p>Service is provided in a timely fashion on demand</p>	<p>June 2006</p> <p>Circular to all staff of updated CLAS list</p> <p>Report July 2006</p>
2. Marketing communications strategies will include an ethnic component where appropriate. Promotions will further recognise backgrounds and needs of NSW Lotteries customers.		<ol style="list-style-type: none"> 1. Identify & use appropriate ethnic media for advertising, promotions & sponsorship. 2. Provide product & service information for NESB communities. 3. Develop promotional activities for specific ethnic communities. Use multilingual promotional staff. 	Director Marketing & Sales	Marketing budget – Corporate Promotions & Advertising	<p>Report June 2005</p>	<p>Inclusion</p> <p>Development of activities</p> <p>Timeliness</p>	<p>Advertising: Press and Radio Sponsorship: press editorials</p> <p>Instant Scratchies launched a special Lunar New Year Scratchie to celebrate the Year of the Rooster as well as supporting other selected retail events in press and radio. Lotto used press and radio to support Super Saturday activity.</p> <p>Ethnic advertising trialed for specific Powerball jackpots of \$9 million and above in press and on radio covering Arabic, Chinese and Vietnamese.</p> <p>Press: Australian Chinese Daily, Chinese Herald, Sing Tao, Ohiau Duong, Viet Luan, El Telegraph, Future, Top Hankuk, Korean Community Magazine.</p> <p>Radio: 2CF, 2AC, 2VNR, 2ME, Korean Broadcasting Australia.</p> <p>Developed multilingual Lottery Agent Training workbooks.</p> <p>Conducted consumer research into playing habits plus media habits and consumption across the Chinese, Vietnamese, Korean and Arabic Communities.</p> <p>Multilingual promotions conducted for all products especially Lotto and Instant Scratchies.</p>	<p>Ongoing</p> <p>Ongoing</p> <p>Report June 2006</p>

Note 1: The existing strategies will continue in 2005-2006

FUNDS GRANTED TO NON-GOVERNMENT COMMUNITY ORGANISATIONS

No funds were granted to non-Government community organisations.

INVESTMENT MANAGEMENT PERFORMANCE

At the end of the financial year investment funds were apportioned between two fund managers:

Treasury Corporation	34.51%
Citigroup Asset Management	65.49%

Gross returns on investments were:

	Actual % per Annum for year ended		Benchmark % per Annum for year ended	
	June 2004	June 2005	June 2004	June 2005
Treasury Corporation	5.20	5.54	5.28	5.62
Citigroup Asset Management	5.47	5.78	5.28	5.62

LEGISLATIVE CHANGES

There were no significant legislative changes or judicial decisions which affected the Corporation's operations during the year.

LIABILITY MANAGEMENT

NSW Lotteries has no borrowings, debt or unfunded liabilities.

OVERSEAS TRAVEL

Officer	Destination	Purpose
John Bagshaw, Chairman	Durban, South Africa	Attend World Lottery Association Annual Conference
Bonita Boezeman, Board Member		Attend World Lottery Association Annual Conference
Mark Bowen, Business Development Manager	Europe, Canada	Explore business development opportunities
Michael Howell, Chief Executive Officer	Washington, Montreal	Attend GTECH World Leaders Forum and associated activities
Martin Cassidy, Director IT Services	Washington, United Kingdom	Attend GTECH World Leaders Forum and associated activities

PROPERTY DISPOSAL

No land was disposed of by the Corporation during the reporting year.

STATUTORY REPORTING APPENDIX (continued)

For the year ended 30 June 2005

STATEMENT OF PERFORMANCE FOR EXECUTIVE OFFICERS

Name:	Michael Howell
Position:	Chief Executive Officer
Period in Position:	Full Year
Total Remuneration Package:	\$340,000
Performance Payment:	\$16,030
Performance assessed by:	The NSW Lotteries Board Authorised by John Bagshaw, Chairman

Results:

- Lottery sales increased by \$7.1 million to a record \$1,116 million (including GST).
- Profit from ordinary activities (before income tax equivalent and significant items) of \$48.3 million finished 6% ahead of target as a result of increased sales and continuing improvements in cost and structural efficiency across the Corporation.
- Total NSW Government Revenue (comprising duty, dividends and tax equivalents) reached a record \$375.8 million.
- Organisational efficiency, as measured by sales per employee, increased to \$6.3 million per employee.
- Service improvements provided players with a wider range of game entry types, easier access to Customer Service contact numbers, enhanced website facilities and a new SMS Results Service.
- 95% of retailers surveyed in annual agent survey indicated that they were satisfied to extremely satisfied with the quality of support services provided by the Corporation – up from 88% in the previous survey.
- The on-line gaming selling system delivered 100% availability against a benchmark of 99.99%. In addition, a range of system improvements and game features were delivered without any system downtime.
- An effective working relationship was maintained with all relevant stakeholder groups.
- All statutory responsibilities were completed on time and no major shortcomings in internal controls were identified in audit reports during the year.

Performance Payment Criteria:

Payment depends on meeting or exceeding annual sales, profit and key accountability targets contained in the Corporation's Business Plan, Statement of Corporate Intent and the Chief Executive Officer's Performance Agreement.

The level of incentive payment and associated performance hurdles are set annually by the Board and are independently assessed and measured against actual results.

Name:	Andrew Everett
Position:	Director Marketing & Sales
Period in Position:	Full Year
Total Remuneration Package:	\$200,000
Performance Payment:	\$6,000
Performance assessed by:	Michael Howell, Chief Executive Officer

Results:

- Overall product sales increased by \$7.1 million to a record \$1,116 million (including GST).
- Total NSW Government Revenue (comprising duty, dividends and tax equivalents) reached \$375.8 million.
- Successfully launched a number of game changes and player options which contributed additional sales revenue.
- 95% of NSW Lotteries' surveyed agents indicated that they were satisfied to extremely satisfied with the quality of support services provided by the Corporation.
- Managed the day-to-day operations of the Marketing & Sales Division in an effective manner and ensured that all critical functions and activities of the Division were completed on time and on budget.
- Effectively managed day-to-day relationship with Lotto Bloc partners in other States.

Performance Payment Criteria:

Payment is subject to meeting or exceeding sales, profit and key accountability targets contained in the Corporation's Business Plan which formed the basis of the Statement of Corporate Intent for the 2004/05 financial year.

The level of incentive payment and associated performance hurdles are set annually at the beginning of each financial year by the Chief Executive Officer. Actual results for the key indicators are assessed and measured against the established targets.

FREEDOM OF INFORMATION

Under Section 14 of the *Freedom of Information Act 1989*, NSW Lotteries is required to publish an annual Statement of Affairs describing the structure and functions of the Corporation and how these functions affect the public. Additionally, the Statement of Affairs requires the inclusion of Policy documents held by the Corporation and how these can be accessed by members of the public.

Statement of Affairs

Structure and Functions

NSW Lotteries Corporation is the only Government-owned gaming and wagering operator in New South Wales and is licensed to develop, promote and conduct lotteries in New South Wales and the Australian Capital Territory. The structure of NSW Lotteries is outlined in this report under Management Structure. The day-to-day functions of the Corporation are reported under the section titled: What We Do, in addition to the four sections that cover our day-to-day operations and titled: Our Players, Our Business, Our Shareholders and Our Staff. Information on the functions of NSW Lotteries is also publicly available by visiting the Corporation's website www.nswlotteries.com.au

Effects of Functions on Members of the Public

Members of the public are invited to participate in the drawing of lotteries at the organisation's Corporate Headquarters, 2 Figtree Drive, Homebush Bay, NSW 2127, and should contact the Draw Administrator on telephone (02) 9752 5548. Lotto draws (Monday, Wednesday and Saturday) are televised from the studios of Channel 9, Sydney, and attendance can be arranged by contacting the Manager, Player Services on telephone (02) 9752 5541.

Policy Documents

NSW Lotteries Corporation holds the following documents, which are available for public viewing:

- Rules for all products (Lotto, Lotto Strike, OZ Lotto, Powerball, Lucky Lotteries, Instant Scratchies and 6 From 38 Pools);
- 'How to Play' pamphlets for all games;
- 'It's now even easier to claim your prizes' brochure;
- 'Join the Players Club' brochure;
- Brochures relating to NSW Lotteries' Policy for Appointing Agencies;
- Australian Lotteries Industry Code of Practice;
- Advertising Code of Practice;
- NSW Lotteries Code of Conduct;
- NSW Lotteries Privacy Policy; and
- Annual Reports.

The following legislation relates to the conduct of our games and the operation of NSW Lotteries:

- NSW Lotteries Corporatisation Act, 1996
- Public Lotteries Act, 1996
- State Owned Corporations Act, 1989.

Documents relating to internal administration, including Board minutes, recruitment, personnel files, accommodation, staff and establishment, financial matters and internal audit are also held by NSW Lotteries.

Members of the public may contact the Freedom of Information Officer to ascertain which of these documents may be available under FOI legislation. In these cases application and processing fees may apply.

Formal requests made under the Freedom of Information Act for access to documents held by the Corporation should be accompanied by a \$30 application fee and directed to:

The FOI Co-ordinator
NSW Lotteries Corporation
2 Figtree Drive
HOMEBUSH BAY NSW 2127.

STATUTORY REPORTING APPENDIX (continued)

For the year ended 30 June 2005

A 50% reduction in fees and charges is available in the following circumstances:

- where the applicant is a pensioner or under 18 years of age;
- where the applicant, as a non-profit organisation, demonstrates financial hardship;
- where the applicant seeks information which does not concern his or her personal affairs, and which the applicant demonstrates is in the public interest to be made available.

The telephone number for all Freedom of Information inquiries is 9752 5783. Arrangements can also be made to view the documents listed above between the hours of 9am and 5pm Monday to Friday by contacting the FOI Co-ordinator at the above address.

Publications

In addition to the Policy Documents listed above, NSW Lotteries prepares other publications relating to its products and operations which assist in keeping our customers and retailers informed. These publications include:

- Network News – product and event information for retailers;
- Promotional material for special product events; and
- Results of games in the Daily Telegraph.

The Corporation's Annual Report is available (free of charge) and can be obtained by contacting the FOI Co-ordinator. The Annual Report is also available by visiting the Corporation's website www.nswlotteries.com.au

Statistical Report for fiscal 2005

As with the period ended 30 June 2004, there were no requests for information under the Freedom of Information Act during the 2005 financial year and an assessment of FOI requirements on NSW Lotteries' activities found no major impact during the year. There were no major issues that arose with regard to the Corporation's annual reporting compliance on FOI issues. There was no involvement by the Ombudsman or courts in relation to any inquiries or appeals under the FOI Act.

ANNUAL REPORT PRODUCTION

Formats available

This report is available in bound hard copies and on the Corporation's website at www.nswlotteries.com.au.

Hard copies of the report are available by contacting the Corporation's headquarters - see postal or e-mail addresses at the rear of this report.

Total external costs incurred in the production of the report

Design, Production & Photography	\$ 22,760
Print Management	<u>\$ 16,623</u>
Total external costs (ex GST)	\$ 39,383

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For the year ended 30 June 2005

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Abbreviations

ARSBA	Annual Report (Statutory Bodies) Act 1984
ARSBR	Annual Report (Statutory Bodies) Regulation 2005
FOIA	Freedom of Information Act 1989
IBC	Inside Back Cover
IFC	Inside Front Cover
PF&AA	Public Finance and Audit Act 1983
PM	Premier's Memorandum
SOCA	State Owned Corporations Act 1989
TC	Treasury Circular
TD	Treasurer's Direction

Access to Services

Retail Sales

A total of 1,472 agencies throughout New South Wales and the Australian Capital Territory sell all seven Lotteries products and provide results services to customers; 132 agencies retail Instant Scratchies only.

On-Line Selling Hours:

Monday to Wednesday
5:00 am to 8:00 pm

Thursday & Friday
5:00 am to 9:00 pm

Saturday
5:00 am to 7:30 pm

Sunday
5:00 am to 6:00 pm

Branch Sales

Sydney City

Pitt Street Store
City Tattersalls Building
200 Pitt Street, Sydney

Open (Public Holidays excepted):

Monday to Friday
8:00 am to 5:30 pm

Thursday evenings
until 7:30 pm

Saturday
9:00 am to 1:00 pm

Homebush Bay

Level 2
2 Figtree Drive, Homebush Bay NSW 2127

Open (Public Holidays excepted):

Monday to Friday
9:00 am to 5:00 pm

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Mail sales are available by writing to:
Customer Sales Unit
PO Box 6687, Silverwater NSW 2128.

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You can check your tickets:

- At any NSW Lotteries on-line Agency – either through the selling terminal or the results notices;
- By telephone:

Customer Service

1300 363 444

Results Service

1900 956 886

SMS Service

19 756 886

Hearing Impaired Service

(02) 9752 5560

- On the Internet:
www.nswlotteries.com.au
- By watching the televised draws
- By Newspaper Results

Customer Inquiries

The Customer Services Unit provides a telephone inquiry service between the hours of 8.00 am and 5.00 pm, Monday to Friday (Public Holidays excepted).

Inquiries may be directed to 1300 363 444.

Corporate Headquarters

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Homebush Bay
NSW 2127
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Telephone (+61 2) 9752 5500

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Hours of business: 8:00 am to 5:00 pm Monday to Friday.

Website address

www.nswlotteries.com.au

E-mail address

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