



HALF YEAR REPORT 2011

FOR THE SIX MONTHS ENDED 31 DECEMBER 2010

HALF YEAR REPORT 2011

FOR THE SIX MONTHS ENDED 31 DECEMBER 2010

Results

for the six months ended 31 December 2010

Financial Performance

We have had a very strong start to the 2010/11 financial year, with a record sales performance for the first six months.

Sales for the period were \$446.2 million, beating the previous record for the first half, which was set two years ago when there was the first-ever Powerball \$30 million 'must be won' draw, by \$3.9 million. This is also \$32.2 million, or 7.8%, ahead of budget and \$46.7 million, or 11.7%, ahead of the same period last year.

In relation to sales, expenses equated to 6.7% of sales, as against a budgeted 7.3%.

Profit for the first half-year was \$87.4 million, \$10.9 million, or 14.2%, ahead of budget and \$5.7 million, or 6.9%, ahead of the same period last year.

As budgeted, payments totalling \$72 million were made to the NZ Lottery Grants Board for onward distribution to fund sporting, arts and community activities around the country.

Our Products

Sales of the Lotto family of products (Lotto, Powerball and Strike) were \$301.3 million, 13.8% up on budget and 14.2% up on the corresponding period in the previous year. A large Powerball jackpot run, culminating in a \$28 million prize in mid-October, provided a boost to sales. At the same time, the changes to Powerball in early October – including a price increase – have seen average weekly sales lift quite significantly. Lotto's popular new advertising campaign, and a strong holiday period prize promotion at the end of the year, also contributed to the improved performance for these games.

Instant Kiwi was relaunched at the end of the last financial year with the aim of reversing a downward trend in this product's sales and profitability. The relaunch featured a new line-up of tickets with new prize structures designed to offer more prizes and better prizes. The relaunch has seen a significant lift in sales for this game, with sales for the first six months of this financial year at \$66.8 million, 24.3% more than for the same period last year. Sales were, however, 4.6% below budget. We expect to see a lift in sales for this game during the second half of the year as a result of several marketing initiatives planned for the period.

Big Wednesday sales of \$57.7 million were down \$1.5 million, or 2.6%, on budget. This demonstrates the impact that big jackpot runs – or the lack of them as in this instance – can have on sales, with only one jackpot run during the period exceeding \$10 million (it was won at \$10.6 million).

Base sales for this game have dropped slightly, and a project to re-energise this product is planned for the new financial year.

Keno sales continued their steady performance, 6.5% up on budget at \$12.9 million.

Sales of our newest game, Bullseye, were \$7.4 million – \$0.4 million, or 5.1%, down on budget.



Highlights of the First Half

Changes were made to Lotto Powerball in October, partly in response to the rise in GST we pay on all of our products. The most notable changes were the increase of \$1 million in the starting point for Powerball First Division at \$4 million, and raising the price per line from 50 cents to 60 cents.

At the same time as the Powerball changes were made, the Lotto draw format was refreshed, including a new pre-recorded introduction video for the week's Winning Wheel spinner which also profiles Lottery Grant recipients and local Lotto retailers. This reflects our intention to communicate more explicitly the link between the sale of our products and community benefits.

Lotto gained a lovable new hero during the period, 'Wilson' the dog. Wilson is the star of the new brand advertising campaign which was also launched in October. The advertisements, which show Wilson's epic journey home after being lost at sea while trying to save his master's winning Lotto ticket, with a quirky twist at the end, have proved very popular.

Fifty lucky players won Lotto First Division in the period, winning \$28.9 million in prizes, and two Lotto promotions were held. In September, ten winners won the choice between a Holden HSV or a Ford FPV, in Lotto's Father's Day promotion. In December, Lotto's Holiday 200 promotion was held over the last three weeks of the year, culminating in a New Year's Day draw where 200 prizes ranging from \$5,000 to \$1 million were won.

The live Lotto TV draw featured 26 Winning Wheel winners from July to December, who won cash prizes ranging from \$100,000 to \$500,000, and a Mercedes CLS350.

The biggest-ever Powerball First Division prize was won during the period, the \$28.3 million prize being won in Papakura in October. Two other Powerball First Division prizes were also won, with the ticket holders taking home \$5 million and \$12.9 million.

Two players won Big Wednesday First Division, winning prize packages worth \$10.6 million and \$4.9 million during the six months to 31 December. One player also won Big Wednesday's Live Like a Star promotion in August, winning a VIP trip to Los Angeles for themselves and three friends.

Following its relaunch in May 2010, Instant Kiwi focussed on promoting its new game line-up during the period. A major campaign was held in November involving a bus covered in scratchable panels travelling the length of the country, stopping in 28 centres where the public could come to scratch a panel and win a prize – every panel had a prize ranging from a free ticket to \$10,000 cash.

Our newest game, Bullseye, has now been running for a year. During the period, three winners struck the Bullseye, winning \$175,000, \$180,000 and \$360,000 respectively.

A trial of digital signage in our retail stores commenced in November. The attractive and eye-catching new signage provides timely jackpot and other prize offer information, ticket options, as well as promoting winners and lottery grants.

The Board

In October, we welcomed Miranda Burdon to the NZ Lotteries board, bringing membership to its full complement of five.

Prospects for the Full Year

After this strong start to the year, we are confident of meeting our sales and profit targets for the full year, and our forecast distribution of \$155 million to the NZ Lottery Grants Board. However, as always, the eventual outturn will largely depend on the length of jackpot runs.

As we look ahead to the coming six months, we would like to acknowledge and thank our staff and retailers for their continued support.

Statement of Comprehensive Income for the six months ended 31 December 2010

	Note	31/12/10 6 months \$000	31/12/10 Budget \$000	31/12/09 6 months \$000	30/06/10 12 months \$000
Revenues					
Revenues	2	428,137	395,254	384,377	752,707
Cost of sales	3	310,686	288,292	274,814	538,375
Gross profit		117,451	106,962	109,563	214,332
Expenses					
Promotion and retail support		14,317	14,032	12,992	24,823
Property, plant and equipment depreciation	4	3,320	3,328	3,116	6,308
Computer software amortisation		651	582	357	749
Gaming system expenses excluding depreciation		3,115	3,031	3,063	6,327
Employee benefits		5,233	5,351	4,984	9,886
Other	5	3,394	4,076	3,303	7,238
Total expenses		30,030	30,400	27,815	55,331
Profit		87,421	76,562	81,748	159,001
Distribution to the New Zealand Lottery Grants Board		72,000	72,000	71,000	165,001
Total comprehensive income after distribution to the New Zealand Lottery Grants Board		15,421	4,562	10,748	(6,000)

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

Statement of Movements in Equity for the six months ended 31 December 2010

	Note	31/12/10 6 months \$000	31/12/10 Budget \$000	31/12/09 6 months \$000	30/06/10 12 months \$000
Total comprehensive income after distribution to the New Zealand Lottery Grants Board		15,421	4,562	10,748	(6,000)
Equity at beginning of the period		36,163	36,163	42,163	42,163
Total comprehensive income for the period as above		15,421	4,562	10,748	(6,000)
Equity at the end of the period	16	51,584	40,725	52,911	36,163

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

Statement of Financial Position

as at 31 December 2010

	Note	31/12/10 \$000	31/12/09 \$000	30/06/10 \$000
Assets				
Current assets				
Cash and cash equivalents	6,8	82,041	69,656	77,223
Term deposits	7,8	29,369	30,256	16,745
Debtors and other receivables	9	7,842	4,708	1,609
Prepayments		4,905	4,135	3,416
Inventories	10	2,463	2,441	1,950
Total current assets		126,620	111,196	100,943
Non-current assets				
Property, plant and equipment	11	21,273	27,126	24,177
Computer software	12	2,172	2,568	2,355
Total non-current assets		23,445	29,694	26,532
Total assets		150,065	140,890	127,475
Liabilities				
Current liabilities				
Creditors and other payables	13	70,007	60,286	68,153
Annuity prize liabilities	14	455	880	700
Employee entitlements		743	718	697
Total current liabilities		71,205	61,884	69,550
Non-current liabilities				
Annuity prize liabilities	14	805	1,339	1,212
Employee entitlements		-	-	49
Total non-current liabilities		805	1,339	1,261
Prize reserve account	15	26,471	24,756	20,501
Total liabilities		98,481	87,979	91,312
Equity				
Retained earnings	16	49,970	51,297	34,549
Asset revaluation reserve	16	1,614	1,614	1,614
Total equity		51,584	52,911	36,163
Total liabilities and equity		150,065	140,890	127,475

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



Judy Kirk
CHAIR
24 February 2011



Chris Curley
CHAIR, AUDIT AND RISK COMMITTEE

Statement of Cash Flows

for the six months ended 31 December 2010

	Note	31/12/10 6 Months \$000	31/12/09 6 Months \$000	30/06/10 12 Months \$000
Cash flows from operating activities				
Ticket sales		423,569	384,703	748,263
Net GST (paid) / received		3,219	(1,724)	(1,881)
Other receipts		3,343	3,152	6,323
Prize payments		(253,905)	(226,979)	(437,987)
Lottery duty		(25,437)	(24,096)	(46,029)
Retailers' commission		(28,940)	(27,460)	(53,413)
Employee costs		(5,288)	(5,171)	(9,915)
Other payments		(26,305)	(24,933)	(44,207)
Net cash flow from operating activities	17	90,256	77,492	161,154
Cash flows from investing activities				
Net (increase)/reduction in term deposits		(12,624)	(10,478)	3,033
Sale of property, plant and equipment		30	67	154
Interest received		2,350	2,320	4,261
Purchase of property, plant and equipment		(497)	(1,277)	(1,492)
Purchase of computer software		(468)	(350)	(529)
Net cash flow from investing activities		(11,209)	(9,718)	5,427
Cash flows from financing activities				
Discharge of annuity prize liabilities		(728)	(880)	(1,120)
Payments to the New Zealand Lottery Grants Board		(73,501)	(99,781)	(190,781)
Net cash flow from financing activities		(74,229)	(100,661)	(191,901)
Net (decrease)/increase in cash balances		4,818	(32,887)	(25,320)
Opening cash and cash equivalents balance		77,223	102,543	102,543
Closing cash and cash equivalents balance	6	82,041	69,656	77,223

The net GST component of operating activities reflects the net GST paid to, or received from, the Inland Revenue Department. The net term deposits component of investing activities reflects the term deposits placed less the amounts that matured during the year. To provide more meaningful information for financial statement purposes GST and term deposits components have been presented on a net basis.

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

Statement of Commitments

as at 31 December 2010

	31/12/10 \$000	31/12/09 \$000	30/06/10 \$000
Capital commitments approved and contracted			
Property, plant and equipment	1,759	112	121
Computer software	995	48	37
Total capital commitments	2,754	160	158
Non-cancellable operating lease commitments, payable			
Not later than one year	377	377	377
Later than one year and not later than two years	377	207	36
Later than two years and not later than five years	528	55	35
Total non-cancellable operating lease commitments	1,282	639	448
Other non-cancellable contracts			
Not later than one year	10,111	10,308	13,603
Later than one year and not later than two years	4,225	4,457	4,398
Later than two years and not later than five years	7,326	11,160	10,088
Later than five years	-	1,266	53
Total other non-cancellable contracts	21,662	27,191	28,142
Total commitments	25,698	27,990	28,748

Capital commitments at 31 December 2010 relate primarily to an agreement for the supply of a digital signature system for NZ Lotteries' retailers.

NZ Lotteries has non-cancellable operating leases for its offices other than the freehold land and building at 117 Khyber Pass Road, Auckland. These lease operating commitments are included in the table above. Further details are as follows:
Christchurch office - the lease runs until June 2013 with two renewal options of four years each. The annual rental is \$36,415.
Wellington office - the lease has been renewed until July 2014. The annual rental is \$340,788.

Other non-cancellable contracts primarily relate to the retailer network, gaming system maintenance, media, and other contracts for service.

Statement of Contingent Liabilities and Contingent Assets

as at 31 December 2010

There were no contingent liabilities or contingent assets at either 31 December 2010, 31 December 2009 or 30 June 2010.

Notes to the Financial Statements

1. Statement of accounting policies for the 6 months ended 31 December 2010

Reporting Entity

These are the New Zealand Lotteries Commission's six monthly financial statements.

Basis of Preparation

Audit opinion

Audit New Zealand has reviewed these financial statements and nothing came to its attention that caused it to believe that the financial statements do not fairly reflect the operations and cashflows of NZ Lotteries for the six months ended 31 December 2010 and its assets and liabilities as at that date.

This review was limited and a full audit was not performed and accordingly Audit New Zealand has not expressed an audit opinion on the financial statements.

The comparative figures have been extracted from published financial statements.

Accounting compliance

These financial statements have been prepared in accordance with New Zealand generally accepted accounting practice (GAAP). They comply with all New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) including NZ IAS 34 (Interim Financial Reporting Standards) and other applicable financial reporting standards except NZ IAS 1 (Presentation of Financial Statements), NZ IAS 36 (Impairment of Assets), NZ IFRS 7 (Financial Instruments; disclosures), NZ IAS 24 (Related Party Disclosures) and NZ IAS 19 (Employee Benefits). NZ Lotteries' full year financial statements comply with all applicable standards. Non-compliance with these standards does not materially affect the half year financial statements.

NZ Lotteries has determined that it is a profit-oriented entity for the purpose of complying with the New Zealand equivalent to International Financial Reporting Standards.

Basis of measurement

The measurement base applied is historical cost modified by the revaluation of certain assets and liabilities as identified in this statement of accounting policies. The accrual basis of accounting has been used unless otherwise stated.

These financial statements are presented in New Zealand dollars rounded to the nearest thousand.

Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

Budget figures

The budget figures are those approved prior to the beginning of the financial year by the board and subsequently confirmed by the Minister of Internal Affairs. The budget figures set out in these financial statements represent the portion of the annual budget figures allocated by NZ Lotteries to the first six months of the financial year.

Changes in accounting policies

There have been no changes in accounting policies since the date of the audited financial statements for the year ended 30 June 2010.

Comparatives

When presentation or classification of items in the financial statements is amended or accounting policies are changed voluntarily, comparative figures are restated to ensure consistency with the current period.

Computer software

Computer software that is not integral to the operation of hardware is recorded at purchase cost less any amortisation and impairment losses. Amortisation is charged to the income statement on a straight line basis over the software's useful life of three to seven years.

The useful life of computer software is reviewed at least annually to determine if there is any indication of impairment. Where any software's recoverable amount is less than its carrying amount, it is reported at its recoverable amount and an impairment loss will be recognised in the statement of comprehensive income.

Contingent assets and contingent liabilities

Contingent liabilities are disclosed if the possibility that they will crystallise is not remote. Contingent assets are disclosed if it is probable that the benefits will be realised.

Employee entitlements

Obligations for contributions to the defined contribution retirement plan are recognised in the statement of comprehensive income as they fall due.

Employee entitlements to salaries and wages, annual leave, long service leave and other similar benefits are recognised in the statement of comprehensive income when they accrue to employees.

Termination benefits are recognised in the statement of comprehensive income only when there is a demonstrable commitment to either terminate employment prior to normal retirement date or to provide such benefits as a result of an offer to encourage voluntary redundancy.

Financial instruments

Cash and cash equivalents, and term deposits

Cash and cash equivalents include cash on hand, bank accounts and deposits with maturities of up to three months from acquisition date.

Term deposits represent deposits and other instruments with maturities of more than three months from acquisition date.

It is NZ Lotteries' policy to restrict its investments to instruments issued or guaranteed by either the New Zealand Government or registered New Zealand banks. Although investments are normally held to maturity, they are readily marketable and therefore may be regarded as liquid assets. The value of investments held fluctuates as changes in market interest rates occur. However, the extent of such fluctuations in value is limited.

Cash and bank balance figures include any cash overdrafts to reflect a total cash position.

Cash equivalents and term deposits are recorded at cost, adjusted in the case of government stock by the amortisation of any premium or discount included in the purchase price.

Annuity prize liabilities

These represent prizes payable for Lotto, Winning Wheel, Instant Kiwi and Big Wednesday games where the payments are spread over a period of greater than 12 months from the date the prizes are claimed. These liabilities are initially measured at fair value using the effective interest rate method. Any changes in value are recorded through the prize reserve account.

Foreign currency transactions

Foreign currency transactions are translated into New Zealand dollars using the exchange rates prevailing at the dates of the transactions.

Goods and Services Tax (GST)

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

Inventories

Inventories held for sale are recorded at the lower of cost (calculated using the first in, first out (FIFO) method) and net realisable value.

The write-down of inventories to net realisable value is recognised as an expense in the income statement in the period the write-down occurs.

Interest

Interest income is recognised using the effective interest rate method.

Interest on cash equivalents and term deposits relating to unpaid prizes and the prize reserve account is credited direct to the prize reserve account. Interest on other cash equivalents and term deposits is credited in the income statement.

Judgements and estimations

In preparing these financial statements, NZ Lotteries has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and judgements are continually evaluated and are based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. There are no estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Leases

Operating leases, where the lessor substantially retains the risks and rewards of ownership, are recognised in a systematic manner over the term of the lease. Leasehold improvements are capitalised and the cost is amortised over the unexpired period of the lease or the estimated useful life of the improvements, whichever is shorter. Lease incentives received are recognised evenly over the term of the lease as a reduction in rental expense.

Prize reserve account

This account is established in accordance with the requirements of the Rules governing the conduct and operation of NZ Lotteries' games. Transfers into this account comprise amounts set aside from the prize pools for games, together with prizes unclaimed after 12 months from the date of the relevant draw or game closure and interest earned on investments representing prize liabilities. Funds accumulated in this account are used exclusively for the purposes of augmenting the prize pools for various draws and games.

Property, plant and equipment

Items of property, plant and equipment are initially recorded at cost.

Revaluations

Land and buildings are revalued with sufficient regularity to ensure that the carrying amount does not differ materially from fair value and at least every three years. Fair value is determined from market-based evidence by an independent valuer.

The carrying values of land and buildings are reviewed at each financial year end to ensure that those values are

not materially different to fair value. Additions between revaluations are recorded at cost.

Accounting for revaluations

The results of revaluing are credited or debited to an asset revaluation reserve for land and buildings, treated separately. Where this would result in a debit balance in the asset revaluation reserve, this balance is expensed in the statement of comprehensive income. Any subsequent increase on revaluation that off-sets a previous decrease in value recognised in the statement of comprehensive income will be recognised first in the statement of comprehensive income up to the amount previously expensed, and then credited to the revaluation reserve for that class of asset.

Additions

The cost of an item of property, plant and equipment is recognised as an asset only when it is probable that future economic benefits or service potential associated with the item will flow to NZ Lotteries and the cost of the item can be measured reliably.

Disposals

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are included in the statement of comprehensive income.

Subsequent costs

Costs incurred subsequent to initial acquisition are capitalised only when it is probable that future economic benefits or service potential associated with the item will flow to NZ Lotteries and the cost of the item can be measured reliably. The costs of day-to-day servicing of property, plant and equipment are recognised in the statement of comprehensive income as they are incurred.

Depreciation

Depreciation of property, plant and equipment, other than freehold land which is not depreciated, is calculated on a straight line basis so as to allocate the cost of the assets, or the revalued amount, over the shorter of the economic life or the relevant lease periods as follows:

Gaming computers, associated equipment and integral software.....	4 - 7 years
Other computer hardware	3 years
Leasehold improvements	1 - 6 years
Draw equipment.....	5 years
Furniture and fittings.....	10 years
Motor vehicles.....	4 years
Office equipment	5 years
Building	10 - 50 years

The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each financial year end.

Revenue and expense recognition

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

Taxation

NZ Lotteries is exempt from income tax by virtue of Section 264 of the Gambling Act 2003.

The following taxes are paid by NZ Lotteries:

- Lottery duty of 5.5 cents in the dollar on GST-inclusive sales;
- Problem gambling levy of 0.34 cents in the dollar on GST-inclusive sales less prizes payable;
- Goods and services tax charged on lottery sales less related prizes payable; and
- Fringe benefit tax.

2. Revenues

	31/12/10 6 months \$000	31/12/10 Budget \$000	31/12/09 6 months \$000	30/06/10 12 months \$000
Sales				
Lotto, Lotto Strike and Powerball	301,336	264,748	263,804	521,099
Instant Kiwi	66,808	70,050	53,744	103,579
Keno	12,929	12,145	13,755	26,188
Big Wednesday	57,725	59,243	62,729	117,102
Bullseye	7,401	7,800	5,429	14,338
Sales including GST	446,199	413,986	399,461	782,306
Less GST	22,522	21,905	19,498	38,261
Sales excluding GST	423,677	392,081	379,963	744,045
Other revenue				
Telecommunications and terminal maintenance cost recovery	2,632	2,486	2,517	5,000
Retailers' establishment fees	268	210	268	548
Interest	1,097	456	1,247	2,264
Sundry	463	21	382	850
	4,460	3,173	4,414	8,662
Total Revenues	428,137	395,254	384,377	752,707

3. Cost of sales

	31/12/10 6 months \$000	31/12/10 Budget \$000	31/12/09 6 months \$000	30/06/10 12 months \$000
Lottery duty	24,541	22,769	21,971	43,027
Problem gambling levy	674	614	331	647
Retailers' commission & MyLotto transaction fees	30,289	28,426	27,177	53,133
Prizes paid and payable	235,619	217,859	207,361	405,564
Prize reserve account	16,640	15,422	15,369	30,120
Ticket costs	2,555	3,202	2,291	5,157
Cost of goods sold to retailers	368	-	314	727
	310,686	288,292	274,814	538,375

4. Property, plant and equipment depreciation

	31/12/10 6 months \$000	31/12/10 Budget \$000	31/12/09 6 months \$000	30/06/10 12 months \$000
The total depreciation charge for each class of assets is as follows:				
On cost				
Gaming computers and associated equipment	2,594	2,543	2,370	4,801
Other computer hardware	181	215	187	392
Leasehold improvements	111	112	111	223
Draw equipment	24	24	29	58
Furniture and fittings	56	55	56	111
Motor vehicles	97	122	105	205
Office equipment	51	51	53	107
	3,114	3,122	2,911	5,897
On cost or valuation				
Building (Khyber Pass Road, Auckland)	206	206	205	411
	3,320	3,328	3,116	6,308

5. Other expenses

	31/12/10 6 months \$000	31/12/10 Budget \$000	31/12/09 6 months \$000	30/06/10 12 months \$000
Audit fees for conducting the external audit	81	83	78	148
Audit fees for scrutineering lottery draws	60	60	61	129
Commission members' fees	67	74	71	139
Interest	1	2	1	1
Premises costs	411	530	520	1,081
IT & Telecommunications	1,216	1,118	1,090	2,353
Other	1,558	2,209	1,482	3,387
	3,394	4,076	3,303	7,238

6. Cash and cash equivalents

	31/12/10 \$000	31/12/09 \$000	30/06/10 \$000
Cash and bank balance	972	2,187	625
Short term deposits	80,720	67,214	76,444
Accrued interest	349	255	154
	82,041	69,656	77,223

7. Term deposits

	31/12/10 \$000	31/12/09 \$000	30/06/10 \$000
Term deposits	29,300	30,200	16,700
Accrued Interest	69	56	45
	29,369	30,256	16,745

8. Fair value of investments

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

	31/12/10 Carrying amount \$000	31/12/10 Fair value \$000	31/12/10 Purchase yield %	31/12/09 Carrying amount \$000	31/12/09 Fair value \$000	31/12/09 Purchase yield %	30/06/10 Carrying amount \$000	30/06/10 Fair value \$000	30/06/10 Purchase yield %
On-call	6,320	6,320	3.60%	10,414	10,414	3.40%	26,644	26,644	3.40%
Maturing within 1 year	103,700	103,802	4.37%	87,000	87,109	3.87%	66,500	66,556	4.02%
	110,020	110,122	4.12%	97,414	97,523	3.82%	93,144	93,200	3.84%

Represented in the balance sheet as:

	31/12/10 Carrying amount \$000	31/12/10 Fair value \$000	31/12/09 Carrying amount \$000	31/12/09 Fair value \$000	30/06/10 Carrying amount \$000	30/06/10 Fair value \$000
<i>Cash and cash equivalents</i> - maturities up to three months from acquisition date	80,720	80,774	67,214	67,246	76,444	76,475
<i>Term deposits</i> - maturities of more than three months from acquisition date	29,300	29,348	30,200	30,277	16,700	16,725
	110,020	110,122	97,414	97,523	93,144	93,200

9. Debtors and other receivables

	31/12/10 \$000	31/12/09 \$000	30/06/10 \$000
Due from retailers for current games	7,765	4,647	1,521
Trade receivables	77	61	88
	7,842	4,708	1,609

The carrying value of debtors and other receivables approximates their fair value.

	31/12/10 \$000	31/12/09 \$000	30/06/10 \$000
Not past due	7,771	4,648	1,521
Past due 1-30 days	38	49	87
Past due 31-60 days	20	11	1
Past due 61-90 days	12	-	-
Past due > 91 days	1	-	-
	7,842	4,708	1,609

10. Inventories

	31/12/10 \$000	31/12/09 \$000	30/06/10 \$000
Instant Kiwi ticket stock	2,224	2,042	1,526
Other stock	239	399	424
	2,463	2,441	1,950

None of the inventory held for sale at 31 December 2010 had been written-down in value. There have been no reversals of write-downs. No inventories are pledged as security for liabilities.

11. Property, plant and equipment

	31/12/10 \$000	31/12/09 \$000	30/06/10 \$000
Land - Khyber Pass Road, Auckland			
Valuation	3,750	3,750	3,750
Carrying amount at end of period	3,750	3,750	3,750

Building - Khyber Pass Road, Auckland			
Cost or valuation	5,473	5,450	5,450
Additions	-	-	23
Valuation at end of period	5,473	5,450	5,473
Accumulated depreciation at beginning of period	444	33	33
Depreciation for the period	206	205	411
Accumulated depreciation at end of period	650	238	444
Carrying amount at end of period	4,823	5,212	5,029
Leasehold improvements			
Cost at beginning of year	999	999	999
Cost at end of period	999	999	999
Accumulated depreciation at beginning of period	768	545	545
Depreciation for the period	111	111	223
Accumulated depreciation at end of period	879	656	768
Carrying amount at end of period	120	343	231
Gaming computer equipment			
Cost at beginning of period	31,688	30,767	30,767
Additions	331	875	921
Disposals	(104)	-	-
Cost at end of period	31,915	31,642	31,688
Accumulated depreciation at beginning of period	18,454	13,653	13,653
Depreciation for the period	2,594	2,370	4,801
Disposals	(103)	-	-
Accumulated depreciation at end of period	20,945	16,023	18,454
Carrying amount at end of period	10,970	15,619	13,234
Other computer hardware			
Cost at beginning of period	2,975	2,789	2,789
Additions	22	140	251
Disposals	(76)	-	(65)
Cost at end of period	2,921	2,929	2,975
Accumulated depreciation at beginning of period	2,333	2,006	2,006
Depreciation for the period	181	187	392
Disposals	(76)	-	(65)
Accumulated depreciation at end of period	2,438	2,193	2,333
Carrying amount at end of period	483	736	642

Draw equipment			
Cost at beginning of period	661	665	665
Disposals	-	-	(4)
Cost at end of period	661	665	661
Accumulated depreciation at beginning of period	591	537	537
Depreciation for the period	24	29	58
Disposals	-	-	(4)
Accumulated depreciation at end of period	615	566	591
Carrying amount at end of period	46	99	70
Furniture and fittings			
Cost at beginning of period	1,213	1,203	1,203
Additions	-	8	12
Disposals	-	(2)	(2)
Cost at end of period	1,213	1,209	1,213
Accumulated depreciation at beginning of period	584	475	475
Depreciation for the period	56	56	111
Disposals	-	(2)	(2)
Accumulated depreciation at end of period	640	529	584
Carrying amount at end of period	573	680	629
Motor vehicles			
Cost at beginning of period	813	808	808
Additions	124	234	296
Disposals	(174)	(188)	(291)
Cost at end of period	763	854	813
Accumulated depreciation at beginning of period	337	355	355
Depreciation for the period	97	105	205
Disposals	(114)	(142)	(223)
Accumulated depreciation at end of period	320	318	337
Carrying amount at end of period	443	536	476
Office equipment			
Cost at beginning of period	734	727	727
Additions	-	1	20
Disposals	(8)	(1)	(13)
Cost at end of period	726	727	734
Accumulated depreciation at beginning of period	618	524	524
Depreciation for the period	51	53	107
Disposals	(8)	(1)	(13)
Accumulated depreciation at end of period	661	576	618
Carrying amount at end of period	65	151	116

Work in progress			
Cost at beginning of period	-	768	768
Capitalised	-	(768)	(768)
Cost at end of period	-	-	-
Carrying amount at end of period	-	-	-
Total property, plant and equipment	21,273	27,126	24,177

NZ Lotteries' freehold land and building are stated at their 31 May 2009 valuation as determined by an independent registered valuer, TelferYoung (Auckland) Ltd, less accumulated depreciation in the case of the building. TelferYoung assessed the current market value as \$9.2 million as at 31 May 2009.

TelferYoung have confirmed that the fair value to 31 December 2010 does not differ materially from the \$8.6 million net book value.

There are no restrictions over the title of property, plant and equipment, nor is any property, plant and equipment pledged as security for liabilities.

12. Computer software

	31/12/10 \$000	31/12/09 \$000	30/06/10 \$000
In use			
Cost at beginning of period	6,048	5,696	5,696
Additions	565	328	410
Disposals	-	-	(58)
Cost at end of period	6,613	6,024	6,048
Accumulated amortisation at beginning of period	3,790	3,099	3,099
Amortisation for the period	651	357	749
Disposals	-	-	(58)
Accumulated amortisation at end of period	4,441	3,456	3,790
Carrying amount at end of period	2,172	2,568	2,258
Work in progress			
Cost at beginning of period	97	68	68
Additions	-	-	97
Capitalised	(97)	(68)	(68)
Carrying amount at end of period	-	-	97
Total computer software	2,172	2,568	2,355

There are no restrictions over the title of computer software, nor is any computer software pledged as security for liabilities.

13. Creditors and other payables

	31/12/10 \$000	31/12/09 \$000	30/06/10 \$000
Moneys received or receivable for games not drawn at balance date	10,830	7,158	2,678
Prize liabilities	32,846	33,242	41,242
MyLotto player accounts	1,714	1,373	1,517
Trade creditors	10,061	6,414	7,595
Payable to the New Zealand Lottery Grants Board	9,500	8,000	11,001
Accrued expenses	5,056	4,099	4,120
	70,007	60,286	68,153

Creditors and other payables are non-interest bearing and are normally settled within two months of becoming due. Accordingly, the carrying value of creditors and other payables approximates their fair value.

Credit Facilities

NZ Lotteries had a bank overdraft facility as at 31 December 2010 of \$2 million with Westpac Banking Corporation. The interest rate applicable to the facility at 31 December 2010, had it been utilised, was 8.95%.

14. Annuity prize liabilities

	31/12/10 Amounts payable \$000	31/12/10 Fair value \$000	31/12/09 Amounts payable \$000	31/12/09 Fair value \$000	30/06/10 Amounts payable \$000	30/06/10 Fair value \$000
Current liabilities	455	455	880	880	700	700
Non-current liabilities	911	805	1,500	1,339	1,358	1,212
	1,366	1,260	2,380	2,219	2,058	1,912

15. Prize reserve account

	31/12/10 \$000	31/12/09 \$000	30/06/10 \$000
Opening balance	20,501	32,605	32,605
Amounts transferred based on game sales	16,640	15,369	30,120
Interest	1,253	1,073	1,997
Unclaimed prizes over twelve months old	5,166	6,773	11,931
Transfers to prize pools	(17,089)	(31,064)	(56,152)
	26,471	24,756	20,501

16. Equity

	31/12/10 \$000	31/12/09 \$000	30/06/10 \$000
Retained earnings			
Opening balance	34,549	40,549	40,459
Total comprehensive income for the period	15,421	10,748	(6,000)
	49,970	51,297	34,549
Assets revaluation reserve			
Opening balance	1,614	1,614	1,614
Movement during the period	-	-	-
	1,614	1,614	1,614
Total Equity	51,584	52,911	36,163

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

	31/12/10 \$000	31/12/09 \$000	30/06/10 \$000
Profit after distribution to the New Zealand Lottery Grants Board	15,421	10,748	(6,000)
Adjustments for non-cash items:			
Depreciation of property, plant and equipment	3,320	3,116	6,308
Amortisation of computer software	651	357	749
Changes in assets and liabilities			
Increase in receivables for current games	(6,244)	129	3,255
Decrease in trade receivables	11	7	(20)
Increase in prepayments	(1,489)	1,068	1,787
Increase in stock	(513)	(599)	(108)
Increase in moneys received or receivable for games	8,152	2,827	(1,653)
Decrease in prize liabilities	(8,396)	6,026	14,026
Increase in trade creditors	3,753	(7,169)	(6,032)
Decrease in employee entitlements	(76)	(225)	(67)
Decrease in prize reserve account	5,970	(7,849)	(12,104)
Investing activity items			
Interest receipts	(2,350)	(2,320)	(4,261)
(Gain) / loss on sale of fixed assets	(30)	(21)	(57)
Financing activity items			
Annuity prize liabilities	76	397	330
Distribution to the New Zealand Lottery Grants Board	72,000	71,000	165,001
Net cash inflow from operating activities	90,256	77,492	161,154

18. Restrictions on cash and cash equivalents, and term deposits

	31/12/10 \$000	31/12/09 \$000	30/06/10 \$000
Payment of prizes	60,078	52,297	61,670
MyLotto player funds	2,554	-	1,629
Total restricted amount	62,632	52,297	63,299

Directory

Auckland Office

117 Khyber Pass Road
PO Box 8929
Symonds Street
Auckland
Telephone 09-356 3800
Facsimile 09-366 1605

Wellington Office

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

Christchurch Office

66-68 Mandeville Street
PO Box 8609
Riccarton
Christchurch

Board Members

Judy Kirk
Chair

Richard Janes
Deputy Chair

Miranda Burdon

Chris Curley

Richard Holden

Senior Management

Todd McLeay
Chief Executive, Auckland

Karen Jones
Head of Communications and
Government Relations, Wellington

Evan Lawrey
Chief Technology Officer, Auckland

Chris Lyman
General Manager Retail Sales, Auckland

Wendy Rayner
Head of Marketing, Auckland

Warren Salisbury
Chief Financial Officer, Wellington

www.mylotto.co.nz



New Zealand Lotteries Commission

+64 (4) 802 7000 TEL

+64 (4) 385 2787 FAX

54-56 Cambridge Terrace

PO Box 3145, Wellington, New Zealand

117 Khyber Pass Road,

PO Box 8929, Symonds Street, Auckland, New Zealand