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2006

Half Year Report

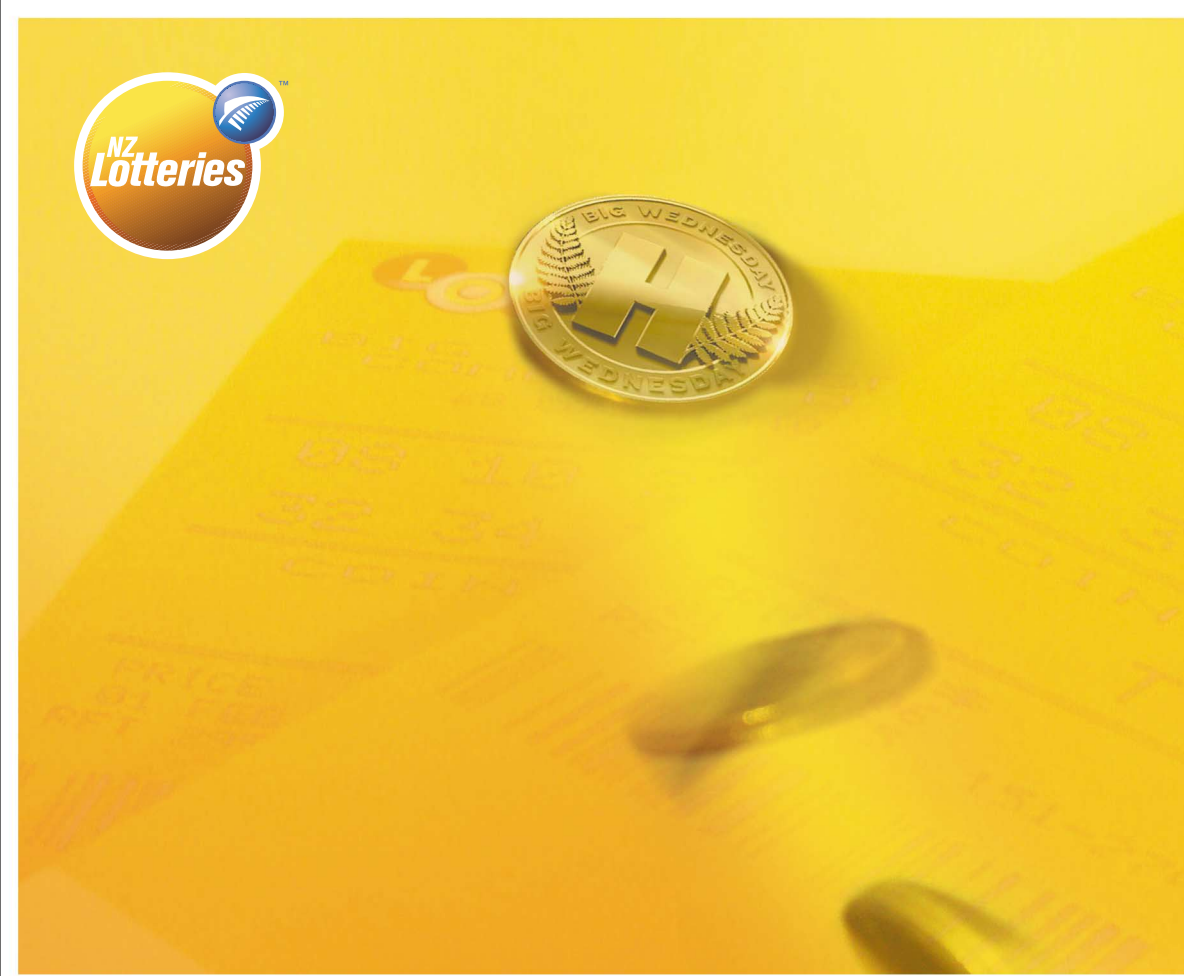
for the six months ended 31 December 2005

BIG WINNERS

NZ Lotteries gave away its largest individual Lotto Powerball prize worth a total of

\$15.2 million.

Congratulations to Amigo's Paper Power & Lotto who sold the winning ticket.



BIG WINNERS

Retailers Ashok and Anu Bhatia from Amigo's Paper Power & Lotto who sold the winning Lotto Powerball ticket.



2006

Half Year Report

for the six months ended 31 December 2005

ISSN: 0114-8567

RESULTS

for the six months ended 31 December 2005



Financial Performance

Sales for the period were \$359.2 million, \$40 million (12.5%) ahead of the same period last year*. The result reflects the introduction of Big Wednesday, and higher Lotto family sales which benefited from some large Powerball jackpots. The increase in the number of outlets selling our lottery products has also had a very positive effect on sales.

The net surplus for the half year amounted to \$74 million. This was \$9.1 million (14%) ahead of the same period last year.

Operating expenses for the half year were \$26.1 million, \$3.1 million (13.4%) above last year. The increase relates mainly to costs associated with the launch of Big Wednesday and costs connected with a number of business renewal projects such as the new gaming system, substantially modifying the new Auckland building and upgrading and expanding our retail network.

As budgeted, payments totalling \$54 million were made to the Lottery Grants Board for distribution to fund sporting, arts and community activities around the country. This was equal to the same period last year. Due to the strong performance during this period payments to the Lottery Grants Board for the full year should be greater than the amount budgeted.

Our Products

Lotto family (Lotto, Powerball & Strike) sales amounted to \$271.6 million for the period, up by 6.9% on last year. Powerball jackpotted more frequently than in the same period last year. The jackpot exceeded \$5 million on 16 weeks compared with just five weeks for the same period last year. Sales of \$72.9 million reflect this, being 23.1% ahead of last year. Strike sales amounted to \$37.1 million, 12.2% ahead of the same period last year. Strike sales were favourably influenced by our Triple Dip promotions. Sales of Lotto itself, at \$161.5 million, were in line with the same period last year.

Instant Kiwi sales of \$53.9 million were slightly ahead of the same period last year. More outlets, more games, better advertising and greater point of sale exposure contributed to this result.

Keno sales, at \$11.5 million, were 2% behind the same period last year.

Big Wednesday achieved sales of \$22.2 million in the period under review following its launch on 26 October 2005, significantly exceeding our revenue expectations.



Highlights of the First Half

A very strong sales performance in December from our revitalised Lotto family products, and the successful launch of Big Wednesday in October, helped us exceed our sales and earnings budgets for the six months under review.

Our new mid-week jackpotting game, Big Wednesday, was launched on 26 October 2005, and has been very well received by players and retailers. Sales have exceeded our expectations. It is also encouraging to note that Big Wednesday sales have not impacted significantly on the Lotto family or our Instant Kiwi games.

Sixty-five players won Lotto First Division, with three winning Powerball, including one player who won \$15.2 million from Lotto First Division and Powerball, the highest individual prize ever won. There were 55 winners of prizes valued up to \$1 million in Lotto's Christmas promotion and 27 Winning Wheel winners, averaging \$200,000 per win, including two players who spun and won \$1 million each.

Powerball jackpotted to higher levels than for the same period last year. During the period under review there were three long jackpot runs culminating in

wins worth \$8 million, \$8.8 million and \$14.5 million. In contrast, in the same period last year, the longest Powerball jackpot run ended when it was won at \$9 million and the next longest run ended at \$4.5 million.

We continued to open new outlets, incorporating the new-look format. At the end of December there were 830 lottery outlets compared with 700 at the same time last year and 756 at the end of the 2004/2005 year. Ninety-five existing stores were refurbished during this period and more than half the network now has the new format.

During the period a NZ Lotteries representative was appointed to the interdepartmental Expert Advisory Committee on Preventing and Minimising Gambling Harm, continuing our commitment to responsible play.

Our business renewal projects are running to schedule. Phase one of the new management information system went live in December 2005. Work continues on replacing our gaming system, moving on to an IP network connecting retailer terminals with the central gaming system and the substantial modifications to our new building in Auckland. These projects are scheduled to be completed by mid 2006.

In January 2006 Trevor Hall advised that he would be resigning from his position as Chief Executive to take up a new role at Tourism Holdings Limited, effective June 2006. We wish Trevor well in his new endeavours.

* As there were 27 Saturdays in the six months ended 31 December 2005, one more than usual, previous year figures have been adjusted for comparison purposes.



BIG WINNERS

Retailers Sue Disher and Heather Jeffcoat from Martina Four Square & Lotto in Thames who sold the first ever Big Wednesday First Division winning ticket

Prospects for the Full Year

We are well on track to meet budgeted sales and net profit targets for the full financial year. The final outcome is dependent on the ongoing success of our promotions and also Powerball and Big Wednesday's jackpotting behaviour.

We appreciate the large number of New Zealanders who support our products every week. We also thank our retailers and staff who have driven sales, maintained service levels and provided great support for Big Wednesday since its launch.

FINANCIAL STATEMENTS

for the six months ended 31 December 2005



Statement of Financial Performance

for the six months ended 31 December 2005

	NOTE	31/12/05 6 Months \$000	% of Sales	31/12/05 Budget \$000	% of Sales	31/12/04 6 Months \$000	% of Sales	30/6/05 12 Months \$000	% of Sales
Sales (including GST)	2	359,195	100.0%	329,445	100.0%	305,931	100.0%	630,374	100.0%
Cost of sales	3	264,172	73.5%	243,998	74.1%	225,380	73.7%	465,204	73.8%
		95,023	26.5%	85,447	25.9%	80,551	26.3%	165,170	26.2%
Other revenue	4	5,059	1.4%	3,468	1.1%	4,126	1.3%	10,779	1.7%
		100,082	27.9%	88,915	27.0%	84,677	27.7%	175,949	27.9%
Operating expenses	5	26,098	7.3%	26,285	8.0%	23,011	7.5%	45,552	7.2%
Net surplus		73,984	20.6%	62,630	19.0%	61,666	20.2%	130,397	20.7%
Distribution to the New Zealand Lottery Grants Board		54,000	15.0%	54,000	16.4%	54,000	17.7%	123,397	19.6%
Net surplus after distribution to the New Zealand Lottery Grants Board		19,984	5.6%	8,630	2.6%	7,666	2.5%	7,000	1.1%

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 2005

	31/12/05 6 Months \$000	31/12/05 Budget \$000	31/12/04 6 Months \$000	30/6/05 12 Months \$000
Net surplus for the period after distribution to the New Zealand Lottery Grants Board	19,984	8,630	7,666	7,000
Total recognised revenues and expenses for the period	19,984	8,630	7,666	7,000
Movements in equity for the year	19,984	8,630	7,666	7,000
Equity at the beginning of the period	29,910	27,988	22,910	22,910
Equity at the end of the period	49,894	36,618	30,576	29,910

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

Statement of Financial Position

as at 31 December 2005

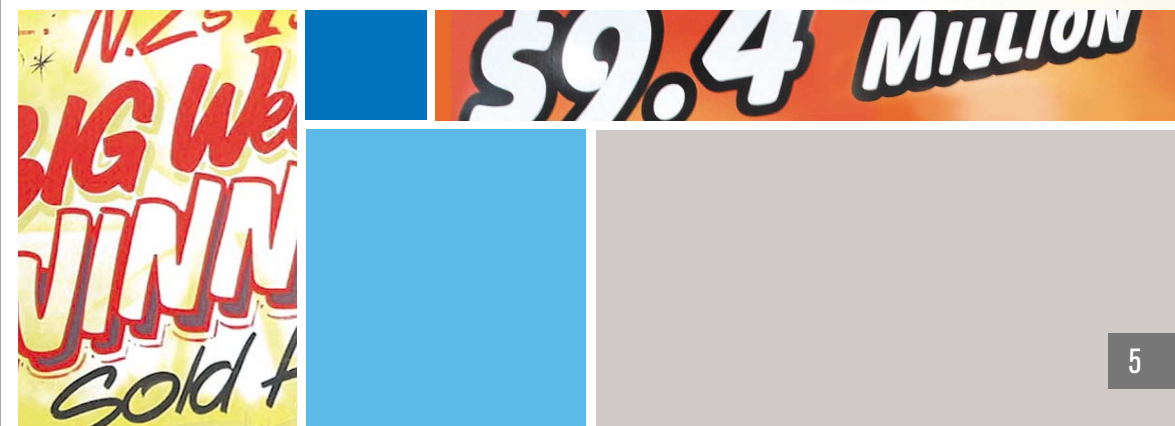
	NOTE	31/12/05 \$000	31/12/04 \$000	30/6/05 \$000
ASSETS EMPLOYED				
Investments	6	101,780	74,343	71,686
Current assets	7	15,872	11,984	13,427
Fixed assets	8	18,886	8,781	10,392
Total assets employed		136,538	95,108	95,505
FUNDS EMPLOYED				
Current liabilities	9	69,698	50,459	52,568
Prize reserve account	10	13,065	12,142	10,968
Long term liabilities	11	3,881	1,931	2,059
Equity		49,894	30,576	29,910
Total funds employed		136,538	95,108	95,505

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

John Goulter DCNZM, JP
PRESIDING MEMBER

Trevor Hall
CHIEF EXECUTIVE

28 February 2006



Statement of Cash Flows

for the six months ended 31 December 2005

	31/12/05 6 Months NOTE \$000	31/12/04 6 Months \$000	30/6/05 12 Months \$000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from:			
Sale of game tickets	328,442	290,348	598,491
Interest received	3,180	2,008	5,089
Net GST received	2,235	3,130	1,403
Other receipts	4,525	3,141	7,335
Cash was applied to:			
Prize payments	171,088	165,738	346,421
Lottery duty	19,314	15,674	33,785
Franchised retailers' commission	24,153	21,400	44,079
Other payments	30,795	26,892	51,334
Payments to the New Zealand Lottery Grants Board	59,397	65,450	129,450
Net cash inflow from operating activities	12 33,635	3,473	7,249
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was provided from:			
Sale of fixed assets	6,655	13	568
Cash was applied to:			
Purchase of fixed assets	10,098	1,785	8,756
Net cash outflow from investing activities	(3,443)	(1,772)	(8,188)
Net increase (decrease) in cash held	30,192	1,701	(939)
Cash balance at the beginning of the period	71,608	72,547	72,547
Cash balance at the end of the period	101,800	74,248	71,608
Reconciliation of the cash balance at the end of the period with Statement of Financial Position items			
Bank and cash deposits	106	73	48
Cash book overdraft	(86)	(168)	(126)
Investments	101,780	74,343	71,686
Cash balance at the end of the period	13 101,800	74,248	71,608

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

Statement of Commitments

as at 31 December 2005

	31/12/05 \$000	31/12/04 \$000	30/6/05 \$000
Capital commitments approved and contracted	18,437	6,263	2,249
Non-cancellable operating lease commitments, payable:			
Not later than one year	500	345	664
Later than one year and not later than two years	327	301	335
Later than two years and not later than five years	159	8	319
Total non-cancellable operating lease commitments	986	654	1,318
Other non-cancellable contracts			
Not later than one year	7,500	3,909	3,685
Later than one year and not later than two years	5,271	1,437	592
More than two years and less than five years	12,356	399	–
More than five years	10,442	–	–
Total other non-cancellable contracts	35,569	5,745	4,277
Total commitments	54,992	12,662	7,844

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

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

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

Wellington office: The lease runs until July 2008 with a renewal option for a further three years. The annual rental is \$319,033.

Statement of Contingent Liabilities

as at 31 December 2005

There were no significant contingent liabilities at 31 December 2005, 31 December 2004 or 30 June 2005.

NOTES to the FINANCIAL STATEMENTS

ONLY
OBJECT!"
ULTIMATE LIFESTYLE
DRAW WEDNESDAY OCT 2

1. Statement of accounting policies

Reporting entity

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

Audit opinion

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

Accounting convention

The financial statements are prepared under the modified historical cost accounting method. The land and building owned by the Commission are revalued periodically. The financial statements comply with the Financial Reporting Standards and Statements of Standard Accounting Practice issued by the Institute of Chartered Accountants of New Zealand. In particular they are prepared under FRS – 24. They should be read in conjunction with the previous annual financial report.

Budget figures

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

Financial instruments

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

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

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

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

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

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

Fixed assets and depreciation

All fixed assets are initially recorded at cost. The net current fair value of the land and building is assessed by an independent valuer every three years and the book values adjusted accordingly.

Depreciation of fixed assets, other than freehold land which is not depreciated, is calculated on a straight line basis so as to allocate the cost of the assets, or the revalued amount, over their estimated useful lives as follows:

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

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

Goods and Services Tax (GST)

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

Leases

Operating leases

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

Prize reserve account

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

Revenue and expense recognition

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

Statement of cash flows

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

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

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

Taxation

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

The Commission pays the following taxes:

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

Changes in accounting policies

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

2. Sales

	31/12/05 6 Months \$000	31/12/05 Budget \$000	31/12/04 6 Months \$000	30/6/05 12 Months \$000
Lotto, Lotto Strike and Powerball	271,582	257,374	240,786	501,883
Instant Kiwi	53,878	57,165	53,338	105,303
Keno	11,545	11,326	11,807	23,188
Big Wednesday *	22,190	3,580	–	–
Sales including GST	359,195	329,445	305,931	630,374
GST	17,782	16,153	15,253	31,264
Sales net of GST	341,413	313,292	290,678	599,110

* Big Wednesday went on sale on 17 October 2005 and the first draw was held on 26 October 2005.

3. Cost of sales

	31/12/05 6 Months \$000	31/12/05 Budget \$000	31/12/04 6 Months \$000	30/6/05 12 Months \$000
GST	17,782	16,153	15,253	31,264
Lottery duty	19,756	18,119	16,826	34,671
Problem gambling levy	233	204	104	305
Franchised retailers' commission	25,156	23,061	21,423	44,117
Prizes paid and payable	189,489	177,251	163,340	336,938
Prize reserve fund	9,253	6,801	6,298	13,053
Ticket costs	2,503	2,409	2,136	4,856
	264,172	243,998	225,380	465,204

4. Other revenue

	31/12/05 6 Months \$000	31/12/05 Budget \$000	31/12/04 6 Months \$000	30/6/05 12 Months \$000
Telecommunications and terminal maintenance cost recovery	2,162	2,133	1,947	4,008
Franchise fees	605	525	406	966
Interest	1,635	780	1,385	2,957
Profit on sale of freehold property*	–	–	–	2,077
Other	657	30	388	771
	5,059	3,468	4,126	10,779

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

5. Operating expenses

	31/12/05 6 Months \$000	31/12/05 Budget \$000	31/12/04 6 Months \$000	30/6/05 12 Months \$000
Operating expenses include :				
Audit fees for conducting the external audit	64	40	42	82
Audit fees for scrutineering lottery draws	47	31	31	63
Audit fees for other services	15	–	9	25
Commission members' fees	58	59	59	108
Depreciation of fixed assets	1,317	1,273	1,112	2,483
Interest	1	3	10	5
Leasing and renting costs	343	274	110	384

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

	31/12/05 6 Months \$000	31/12/04 6 Months \$000	30/6/05 12 Months \$000
On cost:			
Gaming computers and associated equipment	769	611	1,380
Other computer hardware and software	141	156	284
Leasehold improvements	116	52	128
Draw equipment	26	27	56
Furniture and fittings	21	19	40
Motor vehicles	105	91	186
Office equipment	21	26	51
Khyber Pass Road, Auckland	118	–	98
Building additions (Cambridge Terrace, Wellington)	–	9	–
	1,317	991	2,223
On valuation:			
Building (Cambridge Terrace, Wellington)	–	121	260
	1,317	1,112	2,483

6. Investments

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

	31/12/05 Carrying amount \$000	31/12/05 Fair value \$000	31/12/05 Purchase Yield %	31/12/04 Carrying amount \$000	31/12/04 Fair value \$000	31/12/04 Purchase Yield %	30/6/05 Carrying amount \$000	30/6/05 Fair value \$000	30/6/05 Purchase Yield %
On-call	7,129	7,129	7.25	5,352	5,352	6.50	4,692	4,692	6.75
Maturing within 1 year	94,651	94,637	7.21	68,991	68,958	6.67	66,994	66,980	7.04
	101,780	101,766	7.22	74,343	74,310	6.65	71,686	71,672	7.02

The weighted average effective interest rates were:

	31/12/05	31/12/04	30/6/05
	7.21	6.65	7.02

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

Short term-term forward foreign currency contracts

	31/12/05 Carrying amount \$000	31/12/05 Fair value \$000
Short term-term forward foreign currency contracts	5,868	5,891

7. Current assets

	31/12/05 \$000	31/12/04 \$000	30/6/05 \$000
Bank and cash deposits	106	73	48
Due from retailers for current games	10,495	7,065	1,527
Trade receivables	446	249	315
Property sale receivable	–	–	6,653
Accrued interest	504	657	421
Prepayments	1,954	1,851	1,883
Instant Kiwi ticket stock	1,722	1,698	1,391
Stock	645	391	1,189
	15,872	11,984	13,427

8. Fixed assets

	Gross 31/12/05 \$000	Accumulated 31/12/05 Depreciation \$000	Book Value 31/12/05 \$000	Gross 31/12/04 \$000	Accumulated 31/12/04 Depreciation \$000	Book Value 31/12/04 \$000	Gross 30/6/05 \$000	Accumulated 30/6/05 Depreciation \$000	Book Value 30/6/05 \$000
At cost :									
Gaming computers and associated equipment	20,266	19,601	665	20,651	18,478	2,173	20,743	19,248	1,495
Other computer hardware and software	3,942	1,154	2,788	1,499	1,199	300	1,566	1,260	306
Leasehold improvements	2,121	1,978	143	1,988	1,769	219	1,988	1,845	143
Draw equipment	805	634	171	1,119	982	137	708	607	101
Furniture and fittings	704	415	289	1,510	1,211	299	1,538	1,224	314
Motor vehicles	865	438	427	725	304	421	827	333	494
Office equipment	1,010	899	111	1,227	1,095	132	1,255	1,118	137
Khyber Pass Road, Auckland	6,205	216	5,989	–	–	–	6,205	98	6,107
Building additions (Cambridge Terrace, Wellington)	–	–	–	247	23	224	–	–	–
	35,918	25,335	10,583	28,966	25,061	3,905	34,830	25,733	9,097
At valuation :									
Land (Cambridge Terrace, Wellington)	–	–	–	1,000	–	1,000	–	–	–
Building (Cambridge Terrace, Wellington)	–	–	–	4,222	424	3,798	–	–	–
	–	–	–	5,222	424	4,798	–	–	–
Work in progress:									
Gaming computers and associated equipment	5,579	–	5,579	48	–	48	232	–	232
Other computer hardware and software	–	–	–	1	–	1	759	–	759
Leasehold improvements	–	–	–	7	–	7	–	–	–
Motor vehicles	–	–	–	22	–	22	–	–	–
Building renovations (Khyber Pass Road, Auckland)	2,724	–	2,724	–	–	–	304	–	304
	8,303	–	8,303	78	–	78	1,295	–	1,295
	44,221	25,335	18,886	34,266	25,485	8,781	36,125	25,733	10,392

On 28 February 2005 the Commission purchased freehold the Khyber Pass Road land and building for \$6,200,000. The property is stated at cost less depreciation to date on the building. The building is undergoing substantial refurbishment during the current year. It is intended that the net current value of the land and building will be assessed by an independent valuer upon completion of the refurbishment. The carrying value of the property will be adjusted accordingly. The government valuation of the property at 1 July 2005 was \$6.09 million comprising land (\$2.61 million) and improvements (\$3.48 million).

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

9. Current liabilities

	31/12/05	31/12/04	30/6/05
	\$000	\$000	\$000
Cash book overdraft (unsecured)	86	168	126
Moneys received or receivable for games not drawn at balance date	1,090	10,563	3,260
Prize liabilities	45,077	18,801	22,211
Trade creditors	10,110	6,691	5,592
Payable to the New Zealand Lottery Grants Board	4,000	4,000	9,397
Accrued expenses	5,225	7,488	6,977
Employee entitlements	575	525	540
Provision	3,535	2,223	4,465
	69,698	50,459	52,568

Credit Facilities

The Commission has a bank overdraft facility as at 31 December 2005 of \$2,000,000 with Westpac Banking Corporation.

The interest rate on the Commission's bank overdraft was 9.15% per annum.

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

Movement in provision

The movement in the provision for restructuring is as follows:

	31/12/05	31/12/04	30/6/05
	6 Months	6 Months	12 Months
	\$000	\$000	\$000
Provision at the beginning of the period	4,465	2,238	2,238
Additional provision made during the period	–	–	2,455
Charged against the provision for the period	(930)	(15)	(228)
Reversal of unused portion of provision	–	–	–
Provision at the end of the period	3,535	2,223	4,465

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

10. Prize reserve account

	31/12/05	31/12/04	30/6/05
	\$000	\$000	\$000
Opening balance	10,968	11,750	11,750
Amounts transferred based on game sales	9,253	6,298	13,053
Interest	1,628	1,054	2,327
Unclaimed prizes over twelve months old	5,632	7,173	11,490
Transfers to prize pools	(14,416)	(14,133)	(27,652)
	13,065	12,142	10,968

11. Long term liabilities

	31/12/05	31/12/04	30/6/05
	\$000	\$000	\$000
Prize liabilities *	3,881	1,931	2,013
Employee entitlements	–	–	46
Total	3,881	1,931	2,059

* This represents the discounted value of amounts payable one year or more after balance date to a Lotto Winning Wheel prize winner and to prize winners in seven Instant Kiwi games.

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

	31/12/05	31/12/04	30/6/05
	\$000	\$000	\$000
Net surplus per Statement of Financial Performance	19,984	7,666	7,000
Add non-cash item:			
Depreciation of fixed assets	1,317	1,112	2,483
Add (deduct) movements in working capital items:			
Increase in receivables for current games	(8,968)	(6,385)	(847)
Increase in trade receivables	(132)	(185)	(250)
Increase in accrued interest	(83)	(431)	(195)
Increase in prepayments	(71)	(286)	(318)
Decrease in stock	213	(594)	(1,085)
Decrease in moneys received or receivable for games	(2,170)	7,886	583
Increase in prize liabilities	24,734	2,793	6,285
Increase in trade creditors	3,053	2,931	206
Decrease in provisions	(930)	–	2,227
Decrease in employee entitlements	11	36	91
Increase in prize reserve account	2,097	392	(782)
Decrease in New Zealand Lottery Grants Board payables	(5,397)	(11,450)	(6,053)
Less item classified as investing activity:			
Loss on sale of fixed assets	(1)	(12)	(2,096)
Net cash inflow from operating activities	33,635	3,473	7,249

13. Restrictions on cash and investments

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

31/12/05	31/12/04	30/6/05
\$000	\$000	\$000
56,797	34,001	37,059

The total restricted amount is:

14. Related party information

There were no related party transactions during the period.

15. Major budget variations

The net surplus for the half year amounted to \$74 million, 18% above budget. This is mainly a reflection of initial Big Wednesday revenues exceeding expectations and strong Lotto family sales which benefited from some large Powerball jackpots.

16. International Reporting Standards

On 24 November 2004 the Accounting Standards Review Board approved the stable platform of New Zealand Equivalents to International Accounting Standards (NZ IFRS). This put in place the framework that enables the Commission to implement the decision made in December 2002, by the Accounting Standards Review Board, that all New Zealand reporting entities be required to adopt NZ IFRS beginning 1 July 2007 with the option of early adoption for periods beginning on or after 1 January 2005. The Minister of Finance announced in 2003 that the Crown will first adopt NZ IFRS for its financial year beginning year beginning 1 July 2007, which will also be the first period that the Commission adopts NZ IFRS.

Upon adoption of NZ IFRS, the Commission is required to restate its comparative financial statements to reflect the application of NZ IFRS to that comparable period. In addition an opening position for the comparative period must also be determined as if NZ IFRS have always been in place, subject to exemptions provided under NZ IFRS 1 (First Time Adoption of New Zealand Equivalents to International Financial Reporting Standards) that recognises the practical difficulties of retrospective application.

The Commission is continuing work to assess the full impact from the adoption of NZ IFRS and is progressing to convert existing accounting policies and reporting processes to NZ IFRS.

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