



2008

HALF YEAR REPORT

for the six months ended 31 December 2007

RESULTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2007

Financial performance

Sales for the period were \$372 million, \$3.2 million (0.9%) ahead of the same period last year¹. A long jackpotting run for Big Wednesday in the previous year generated very strong sales. Without the benefit of a similar long run in the period under review, Big Wednesday sales were well down on last year. Total sales for all products excluding Big Wednesday were up by 3.9%.

The net surplus for the half year amounted to \$72.3 million, \$3.5 million (4.6%) below the same period last year. Operating expenses for the half year were \$28.8 million, \$2.5 million (9.5%) above last year. The increase relates mainly to extra costs associated with Lotto's 20th birthday celebration and the new stream of advertising and promotional material based on the "What would you do?" proposition, and higher costs related to supporting the gaming system and associated systems acquired in 2005.

As budgeted, payments totalling \$68.5 million were made to the Lottery Grants Board for distribution to fund sporting, arts and community activities around the country. This was \$4 million more than in the same period last year.

Our products

Lotto family (Lotto, Powerball and Strike) sales amounted to \$239.2 million for the period, up by 3.9% on last year. Sales benefited particularly from successful promotions marking Lotto's 20th birthday and the Christmas/New Year period. Powerball jackpotted more frequently than in the same period last year. The jackpot exceeded \$5 million on eight weeks compared with just four weeks for the same period last year. Sales of \$64.9 million reflect this, being 11.0% ahead of last year. Strike sales amounted to \$33.7 million, 5.4% ahead of the same period last year. Strike sales continued to be favourably influenced by our Triple Dip promotions. Sales of Lotto itself, at \$140.6 million, were 0.6% ahead of the same period last year.

Instant Kiwi sales continue to grow steadily. Sales for the half year were \$56.5 million, up 3.2% on last year. Innovative ticket designs and effective promotions using the "little thriller" tagline were key factors in achieving this result.

Keno sales, at \$12.7 million, were 6.2% ahead of the same period last year.

Big Wednesday sales were \$63.6 million, 11.4% lower than in the same period last year when sales were especially high as a result of a very long jackpot run. The underlying level of sales in the half year, after allowing for the effect of jackpot runs, remained very satisfactory.



Highlights of the first half

NZ Lotteries began the new financial year with a huge celebration of Lotto's 20th birthday in August. With the largest prize offering in Lotto's history, the promotion captured the attention of all New Zealanders. At the same time, new Lotto brand advertising using the new tag line "What would you do?" and a new-look Lotto draw were also launched, refreshing Lotto as it entered its 21st year.

A total of 52 players won Lotto First Division, winning an average of \$504,153 each. Lotto's 20th birthday created three new millionaires and saw ten other winners take home \$250,000 each in a prize pool worth \$5.5 million. There were 100 winners of

¹ As there were 27 Saturdays (and hence Lotto draws) in the six months ended 31 December 2006, one more than usual, previous year figures have been adjusted for comparison purposes.

prizes valued up to \$1,000,000 in Lotto's 'Holiday 100' promotion in December; in October, 12 players won trips to the exclusive Necker Island owned by Sir Richard Branson plus \$100,000 cash; and 100 coupon players won \$1,001 in November.

The Lotto live TV draw featured 26 Winning Wheel winners, who won cash ranging from \$100,000 to \$1 million, and non-cash prizes such as a motor home and a Jaguar XK. Two Winning Wheel players spun and won the top prize of \$1 million.

Major changes to Powerball were launched during the period, the first changes to the game since it began in February 2001. The changes included increasing the week one minimum First Division prize to \$3 million and increasing the number of Powerball numbers to 10. Initial indications show the changes have led to increased sales early in the jackpot cycle.

The top Powerball prize was struck twice during the period, with prizes of \$5.7 million and \$8.4 million, and there was also one Powerball Second Division winner who won \$2.9 million when a 'Must be won' draw was called in October prior to the introduction of the Powerball changes.

Six players won Big Wednesday First Division between 1 July and 31 December 2007, winning between \$2.9 million and \$8.9 million. Only two jackpot runs went past week 6 of the jackpot cycle and entered the cash escalation part of the cycle.

Instant Kiwi continued to perform steadily. Innovative ticket designs, including the use of holographic paper, kept the games interesting and exciting.

The retail network grew to 1,000 outlets by 31 December 2007, and nearly the entire network now has the new-look format introduced in 2005. An

updated version of the new-look, featuring bold new branding, was trialled this year and a standards manual has been prepared to aid outlets wishing to incorporate this branding into their store's format. The retailer incentive programme has been revised and relaunched this year as 'Game On!'.

Plans for the introduction of an internet sales platform for our existing games (excluding Instant Kiwi) in 2008 have progressed significantly during the six months to 31 December 2007. Our retail network will remain the main source of NZ Lotteries' sales, but this additional sales channel will enable us to better meet the demands of the ever-growing online community, attracting to our games infrequent and new players who enjoy shopping online.

Prospects for the full year

The result for the full year is dependent primarily on the length of Powerball and Big Wednesday jackpot runs during the second six months, and on conditions in the retail market generally. Last year we distributed a record \$147.5 million to the Lottery Grants Board. Although the net surplus for the first half of the current year was down slightly on budget, there is a reasonable likelihood that the distribution for the full year will reach last year's record.

We thank the large number of New Zealanders who purchase our products and thereby help to support sporting, arts and community activities around the country. We also thank our retailers and staff for the dedication and enthusiasm they have displayed over the last six months.

FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2007

INCOME STATEMENT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2007

	note	31/12/07 6 Months \$000	31/12/07 Budget \$000	31/12/06 6 Months \$000	30/6/07 12 Months \$000
REVENUES					
Sales including GST		372,013	377,980	376,958	744,849
Sales excluding GST	2	354,095	359,326	358,713	708,837
Cost of sales	3	256,870	260,141	259,054	512,976
Gross profit		97,225	99,185	99,659	195,861
Other revenue	4	3,925	3,777	4,451	8,771
EXPENSES					
Promotion and retail support		15,234	14,956	13,859	26,006
Property, plant and equipment depreciation	5	2,562	2,940	2,204	4,667
Computer software amortisation		377	393	374	749
Gaming system		2,260	2,479	2,133	4,318
Employee benefits		4,448	4,608	4,319	8,609
Other	6	3,927	3,662	3,427	7,711
Total expenses		28,808	29,038	26,316	52,060
Revaluation of land and building		–	–	–	324
Profit		72,342	73,924	77,794	152,896
Distribution to the New Zealand Lottery Grants Board		68,500	68,500	64,500	147,500
Profit after distribution to the New Zealand Lottery Grants Board		3,842	5,424	13,294	5,396

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 2007

		31/12/07 6 Months \$000	31/12/07 Budget \$000	31/12/06 6 Months \$000	30/6/07 12 Months \$000
Profit after distribution to the New Zealand Lottery Grants Board		3,842	5,424	13,294	5,396
Total recognised revenues and expenses for the period		3,842	5,424	13,294	5,396
Equity at beginning of the period prior to adoption of NZ IFRS		41,713	41,713	36,277	36,277
Adoption of NZ IFRS at beginning of period	20	–	–	40	40
Equity at beginning of the period after adoption of NZ IFRS		41,713	41,713	36,317	36,317
Net profit for the period as above		3,842	5,424	13,294	5,396
Equity at the end of the period		45,555	47,137	49,611	41,713

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

BALANCE SHEET

AS AT 31 DECEMBER 2007

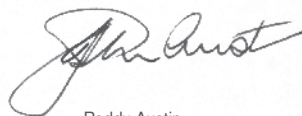
	note	31/12/07 \$000	31/12/06 \$000	30/6/07 \$000
ASSETS				
Current assets				
Cash and cash equivalents	7,9	72,862	33,521	40,465
Term deposits	8,9	14,741	47,211	42,623
Debtors and other receivables	10	7,218	10,455	9,188
Prepayments		2,975	2,525	3,457
Inventories	11	3,140	2,938	3,452
Total current assets		100,936	96,650	99,185
Non-current assets				
Property, plant and equipment	12	32,875	33,704	33,064
Computer software	13	2,874	1,458	1,474
Total non-current assets		35,749	35,162	34,538
Total assets		136,685	131,812	133,723
LIABILITIES				
Current liabilities				
Creditors and other payables	14	65,154	55,809	57,989
Annuity prize liabilities		1,249	1,199	1,302
Provision	15	651	1,325	1,091
Employee entitlements		618	580	525
Total current liabilities		67,672	58,913	60,907
Long term liabilities				
Annuity prize liabilities		4,937	5,838	5,840
Employee entitlements		-	-	37
Total long term liabilities		4,937	5,838	5,877
Prize reserve account	16	18,521	17,450	25,226
Total liabilities		91,130	82,201	92,010
EQUITY		45,555	49,611	41,713
TOTAL LIABILITIES AND EQUITY		136,685	131,812	133,723

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

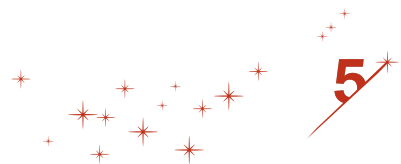


John Goulter DCNZM, AFINSTD, FINSTM, JP
PRESIDING MEMBER

20 February 2008



Paddy Austin
DEPUTY PRESIDING MEMBER

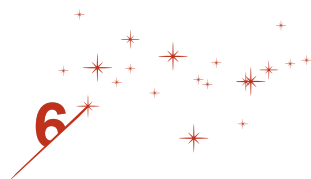


STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2007

	note	31/12/07 6 Months \$000	31/12/06 6 Months \$000	30/6/07 12 Months \$000
CASH FLOWS FROM OPERATING ACTIVITIES				
Ticket sales		356,558	347,446	700,047
Net GST received		2,492	407	315
Other receipts		3,566	4,754	8,427
Prize payments		(206,785)	(206,033)	(407,108)
Lottery duty		(18,959)	(19,620)	(40,764)
Retailers' commission		(26,290)	(25,560)	(51,492)
Employee costs		(4,452)	(5,226)	(9,446)
Other payments		(28,490)	(25,132)	(48,212)
Net cash inflow from operating activities	17	77,640	71,036	151,767
CASH FLOWS FROM INVESTING ACTIVITIES				
Net reduction in term deposits		27,882	23,153	27,741
Sale of property, plant and equipment		54	101	163
Interest received		3,732	3,671	7,362
Purchase of property, plant and equipment		(2,666)	(6,601)	(9,639)
Purchase of computer software		(1,603)	(1)	-
Net cash inflow from investing activities		27,399	20,323	25,627
CASH FLOWS FROM FINANCING ACTIVITIES				
Discharge of annuity prize liabilities		1,249	971	1,455
Payments to the New Zealand Lottery Grants Board		71,393	84,589	163,196
Net cash outflow from financing activities		72,642	85,560	164,651
Net increase in cash balances		32,397	5,799	12,743
Opening cash and cash equivalents balance		40,465	27,722	27,722
Closing cash and cash equivalents balance	7	72,862	33,521	40,465

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



STATEMENT OF COMMITMENTS

AS AT 31 DECEMBER 2007

	31/12/07 \$000	31/12/06 \$000	30/6/07 \$000
Capital commitments approved and contracted			
Property, plant and equipment	3,053	972	1,981
Computer software	754	–	154
Total capital commitments	3,807	972	2,135
Non-cancellable operating lease commitments, payable:			
Not later than one year	195	327	354
Later than one year and not later than two years	33	160	38
Later than two years and not later than five years	99	–	114
Later than five years	16	–	37
Total non-cancellable operating lease commitments	343	487	543
Other non-cancellable contracts			
Not later than one year	12,142	10,298	6,299
Later than one year and not later than two years	4,884	4,138	4,329
Later than two years and not later than five years	7,337	9,154	8,142
Later than five years	5,339	7,958	6,457
Total other non-cancellable contracts	29,702	31,548	25,227
Total commitments	33,852	33,007	27,905

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:

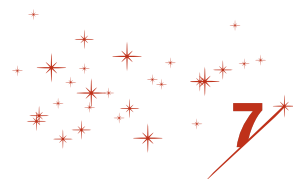
Christchurch office: The lease runs until June 2013 with two renewal options of four years each. The annual rental is \$32,979.

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

STATEMENT OF CONTINGENT LIABILITIES AND CONTINGENT ASSETS

AS AT 31 DECEMBER 2007

There were no significant contingent liabilities or contingent assets at 31 December 2007, 31 December 2006 or 30 June 2007.



NOTES TO THE FINANCIAL STATEMENTS

1. Statement of accounting policies for the six months ended 31 December 2007

REPORTING ENTITY

These are the New Zealand Lotteries Commission's financial statements. They are prepared subject to the provisions of the Gambling Act 2003 and the Crown Entities Act 2004.

BASIS OF PREPARATION

Audit opinion

These interim financial statements have not been audited. The comparative figures have been extracted from published financial statements and adjusted for transition to NZ IFRS.

Accounting compliance

These financial statements have been prepared in accordance with New Zealand generally accepted accounting practice. They comply with NZ IAS 34 (Interim Financial Reporting Standard), all other New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable financial reporting standards except NZ IAS 36 (Impairment of Assets) and NZ IAS 19 (Employee Benefits). Compliance with NZ IAS 36 and NZ IAS 19 would not materially affect the half year financial results.

NZ Lotteries has determined that it is a profit-oriented entity for the purpose of complying with New Zealand generally accepted accounting practice and NZ IFRS.

These are NZ Lotteries' first financial statements complying with NZ IFRS. An explanation of how the transition to NZ IFRS has affected the reported financial position, financial performance, and cash flows of NZ Lotteries is provided in note 20.

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 and in preparing an opening NZ IFRS balance sheet as at 1 July 2006 for the purposes of the transition to NZ IFRS.

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.

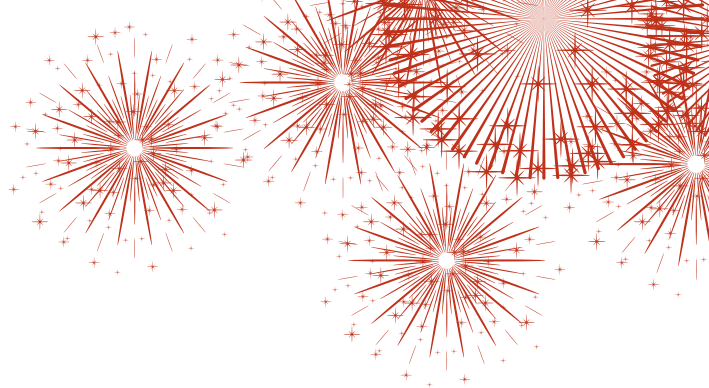
Changes in accounting policies

There have been no changes in accounting policies since the date of the audited financial statements for the year ended 30 June 2007, other than the impact of adoption of NZ IFRS.

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 amortisation and any 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 income statement.

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 income statement as they fall due.

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

Termination benefits are recognised in the income statement 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.

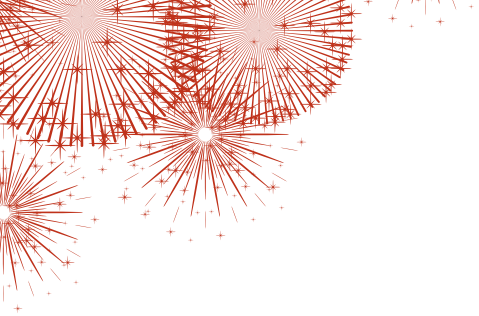
The value of investments held fluctuates as changes in market interest rates occur. However, the extent of such fluctuations in value is limited.

Cash 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. Any changes in value are recorded through either the income statement or the prize reserve account.



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 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

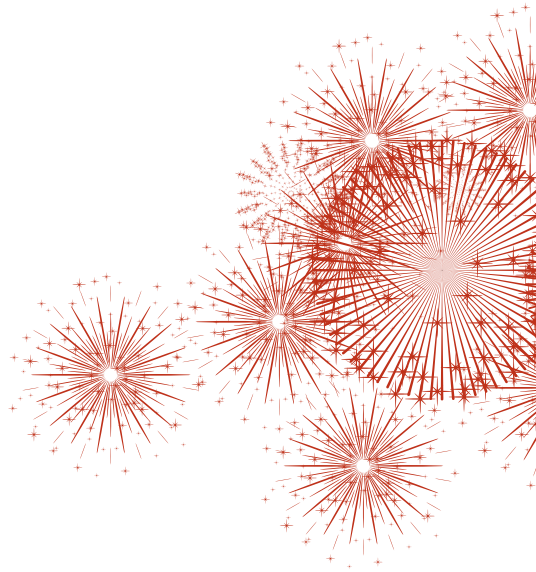
Operating leases, where the lessor substantially retains the risks and rewards of ownership, are recognised in a systematic manner over the term of the lease. Leasehold improvements are capitalised and the cost is amortised over the unexpired period of the lease or the estimated useful life of the improvements, 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. 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.



The net current fair value of the land and building is assessed by an independent valuer every three years in accordance with standards issued by the New Zealand Property Institute. The book values are then adjusted accordingly.

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	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 – Structure	50 years
– Services	15 years
– Fit out	10 years

Provisions

Provisions are recorded at the best estimate of the expenditure required to settle the obligation. Provisions to be settled beyond 12 months are recorded at their present value.

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.

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 0.20 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.

2. Sales

	31/12/07 6 Months \$000	31/12/07 Budget \$000	31/12/06 6 Months \$000	30/6/07 12 Months \$000
Lotto, Lotto Strike and Powerball	239,173	242,950	238,415	476,284
Instant Kiwi	56,502	56,030	54,742	109,164
Keno	12,702	11,800	11,962	23,581
Big Wednesday	63,636	67,200	71,839	135,820
Sales including GST	372,013	377,980	376,958	744,849
GST	17,918	18,654	18,245	36,012
Sales excluding GST	354,095	359,326	358,713	708,837

3. Cost of sales

	31/12/07 6 Months \$000	31/12/07 Budget \$000	31/12/06 6 Months \$000	30/6/07 12 Months \$000
Lottery duty	20,461	20,789	20,733	40,967
Problem gambling levy	331	336	226	457
Retailers' commission	26,048	26,459	26,404	52,145
Prizes paid and payable	194,305	197,079	195,876	388,455
Prize reserve account	13,068	13,013	13,347	25,852
Ticket costs	2,657	2,465	2,468	5,100
	256,870	260,141	259,054	512,976

4. Other revenue

	31/12/07 6 Months \$000	31/12/07 Budget \$000	31/12/06 6 Months \$000	30/6/07 12 Months \$000
Telecommunications and terminal maintenance cost recovery	2,435	2,348	2,363	4,788
Retailers' establishment fees	353	405	528	911
Interest	1,125	1,000	1,418	2,782
Other	12	24	142	290
	3,925	3,777	4,451	8,771

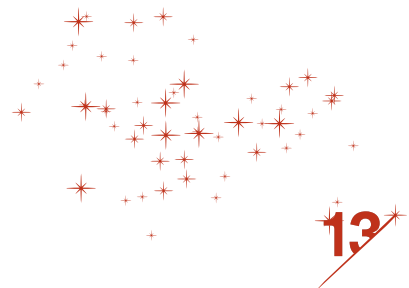
5. Property, plant and equipment depreciation

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

	31/12/07 6 Months \$000	31/12/06 6 Months \$000	30/6/07 12 Months \$000
On cost:			
Gaming computers and associated equipment	1,765	1,318	3,280
Other computer hardware	286	462	538
Leasehold improvements	73	–	1
Draw equipment	36	18	46
Furniture and fittings	52	48	96
Motor vehicles	93	97	188
Office equipment	55	59	115
	2,360	2,002	4,264
On valuation:			
Building (Khyber Pass Road, Auckland)	202	202	403
	2,562	2,204	4,667

6. Other expenses

	31/12/07 6 Months \$000	31/12/07 Budget \$000	31/12/06 6 Months \$000	30/6/07 12 Months \$000
Audit fees for conducting the external audit	80	70	48	124
Audit fees for scrutineering lottery draws	60	60	71	144
Audit fees for other services	–	–	15	38
Commission members' fees	67	67	64	122
Interest	2	4	4	9
Premises costs	487	512	457	900
Other	3,231	2,949	2,768	6,374
	3,927	3,662	3,427	7,711



7. Cash and cash equivalents

	31/12/07 \$000	31/12/06 \$000	30/6/07 \$000
Cash and bank balance	71	274	29
Short term deposits	72,498	33,123	40,247
Accrued interest	293	124	189
	72,862	33,521	40,465

Cash and bank balance comparative figures have been restated to include cash overdraft and reflect a total cash position.

8. Term deposits

	31/12/07 \$000	31/12/06 \$000	30/6/07 \$000
Term deposits	14,500	46,675	42,066
Accrued interest	241	536	557
	14,741	47,211	42,623

9. 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:

	31/12/07 Carrying amount \$000	31/12/07 Fair value \$000	31/12/07 Purchase yield %	31/12/06 Carrying amount \$000	31/12/06 Fair value \$000	31/12/06 Purchase yield %	30/6/07 Carrying amount \$000	30/6/07 Fair value \$000	30/6/07 Purchase yield %
On-call	7,173	7,173	8.25%	4,412	4,412	7.25%	3,734	3,734	8.00%
Maturing within 1 year	79,825	79,816	8.72%	75,386	75,367	7.59%	78,579	78,567	8.45%
	86,998	86,989	8.68%	79,798	79,779	7.57%	82,313	82,301	8.43%
Represented in the balance sheet as:									
Cash and cash equivalents	72,498	72,490		33,123	33,116		40,247	40,241	
Term deposits	14,500	14,499		46,675	46,663		42,066	42,060	
	86,998	86,989		79,798	79,779		82,313	82,301	

10. Debtors and other receivables

	31/12/07 \$000	31/12/06 \$000	30/6/07 \$000
Due from retailers for current games	6,785	10,223	9,014
Trade receivables	433	232	174
	7,218	10,455	9,188

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

	31/12/07 \$000	31/12/06 \$000	30/6/07 \$000
Not past due	7,159	10,420	9,118
Past due 1-30 days	11	33	(12)
Past due 31-60 days	32	1	43
Past due 61-90 days	12	1	19
Past due > 91 days	4	0	20
	7,218	10,455	9,188

11. Inventories

	31/12/07 \$000	31/12/06 \$000	30/6/07 \$000
Instant Kiwi ticket stock	2,018	1,941	1,874
Other stock	1,122	997	1,578
	3,140	2,938	3,452

The write-down of inventories held for distribution amounted to \$14,000 as at 31 December 2007. There have been no reversals of write-downs. No inventories are pledged as security for liabilities.

12. Property, plant and equipment

	31/12/07 \$000	31/12/06 \$000	30/6/07 \$000
Land - Khyber Pass Road, Auckland	3,300	3,300	3,300
Building structure - Khyber Pass Road, Auckland			
Valuation at beginning of period	2,660	2,660	2,660
Valuation at end of period	2,660	2,660	2,660
Accumulated depreciation at beginning of period	62	9	9
Depreciation for the period	27	27	53
Accumulated depreciation at end of period	89	36	62
Carrying amount at end of period	2,571	2,624	2,598
Building services - Khyber Pass Road, Auckland			
Valuation at beginning of period	2,520	2,520	2,520
Valuation at end of period	2,520	2,520	2,520
Accumulated depreciation at beginning of period	196	28	28
Depreciation for the period	84	84	168
Accumulated depreciation at end of period	280	112	196
Carrying amount at end of period	2,240	2,408	2,324
Building fitout - Khyber Pass Road, Auckland			
Valuation at beginning of period	1,820	1,820	1,820
Valuation at end of period	1,820	1,820	1,820
Accumulated depreciation at beginning of period	212	30	30
Depreciation for the period	91	91	182
Accumulated depreciation at end of period	303	121	212
Carrying amount at end of period	1,517	1,699	1,608
Leasehold improvements			
Cost at beginning of period	158	351	351
Additions	860	-	20
Disposals	(2)	(213)	(213)
Cost at end of period	1,016	138	158
Accumulated depreciation at beginning of period	137	346	346
Depreciation for the period	73	-	1
Disposals	-	(210)	(210)
Accumulated depreciation at end of period	210	136	137
Carrying amount at end of period	806	2	21

	31/12/07 \$000	31/12/06 \$000	30/6/07 \$000
Gaming computer equipment			
Cost at beginning of period	26,890	25,660	25,660
Additions	(584)	2,225	3,146
Disposals	(24)	(1,391)	(1,916)
Cost at end of period	26,282	26,494	26,890
Accumulated depreciation at beginning of period	6,930	5,561	5,561
Depreciation for the period	1,763	1,318	3,282
Disposals	(6)	(1,403)	(1,913)
Accumulated depreciation at end of period	8,687	5,476	6,930
Carrying amount at end of period	17,595	21,018	19,960
Other computer hardware			
Cost at beginning of period	2,011	2,339	2,339
Additions	96	170	318
Disposals	–	(641)	(646)
Cost at end of period	2,107	1,868	2,011
Accumulated depreciation at beginning of period	1,152	1,254	1,254
Depreciation for the period	286	462	537
Disposals	–	(633)	(639)
Accumulated depreciation at end of period	1,438	1,083	1,152
Carrying amount at end of period	669	785	859
Draw equipment			
Cost at beginning of period	835	659	659
Additions	(16)	–	203
Disposals	–	(2)	(27)
Cost at end of period	819	657	835
Accumulated depreciation at beginning of period	552	533	533
Depreciation for the period	36	18	46
Disposals	–	(2)	(27)
Accumulated depreciation at end of period	588	549	552
Carrying amount at end of period	231	108	283
Furniture and fittings			
Cost at beginning of period	1,124	1,205	1,205
Additions	105	16	63
Disposals	(71)	(82)	(144)
Cost at end of period	1,158	1,139	1,124
Accumulated depreciation at beginning of period	317	349	350
Depreciation for the period	52	48	95
Disposals	(40)	(73)	(128)
Accumulated depreciation at end of period	329	324	317
Carrying amount at end of period	829	815	807

	31/12/07 \$000	31/12/06 \$000	30/6/07 \$000
Motor vehicles			
Cost at beginning of period	687	829	829
Additions	136	225	292
Disposals	(90)	(256)	(434)
Cost at end of period	733	798	687
Accumulated depreciation at beginning of period	267	448	448
Depreciation for the period	93	97	188
Disposals	(80)	(217)	(369)
Accumulated depreciation at end of period	280	328	267
Carrying amount at end of period	453	470	420
Office equipment			
Cost at beginning of period	840	1,329	1,329
Additions	9	38	50
Disposals	(118)	(524)	(539)
Cost at end of period	731	843	840
Accumulated depreciation at beginning of period	470	868	868
Depreciation for the period	55	59	115
Disposals	(117)	(498)	(513)
Accumulated depreciation at end of period	408	429	470
Carrying amount at end of period	323	414	370
Work in progress			
Cost at beginning of period	514	39	39
Additions	1,829	22	475
Cost at end of period	2,343	61	514
Accumulated depreciation at beginning of period	–	–	–
Depreciation for the period	2	–	–
Accumulated depreciation at end of period	2	–	–
Carrying amount at end of period	2,341	61	514
Total property, plant and equipment	32,875	33,704	33,064

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

13. Computer software

	31/12/07 \$000	31/12/06 \$000	30/6/07 \$000
In use			
Cost at beginning of period	2,427	2,345	2,345
Additions	585	–	82
Cost at end of period	3,012	2,345	2,427
Accumulated amortisation at beginning of period	1,262	513	513
Amortisation for the period	378	374	749
Accumulated amortisation at end of period	1,640	887	1,262
Carrying amount at end of period	1,372	1,458	1,165
Work in progress			
Cost at beginning of period	309	–	–
Additions	1,193	–	309
Carrying amount at end of period	1,502	–	309
Total computer software	2,874	1,458	1,474

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

14. Creditors and other payables

	31/12/07 \$000	31/12/06 \$000	30/6/07 \$000
Moneys received or receivable for games not drawn at balance date	3,019	1,885	1,623
Prize liabilities	42,314	34,540	33,980
Trade creditors	8,635	6,705	7,884
Payable to the New Zealand Lottery Grants Board	6,000	4,500	8,893
Accrued expenses	5,186	8,179	5,609
	65,154	55,809	57,989

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 has a bank overdraft facility as at 31 December 2007 of \$2,000,000 with Westpac Banking Corporation. The interest rate on NZ Lotteries' bank overdraft facility was 10.50% per annum if utilised.

15. Provision

The movement in the provision for restructuring is as follows:

	31/12/07 \$000	31/12/06 \$000	30/6/07 \$000
Provision at the beginning of the period	1,091	2,685	2,685
Additional provision made during the period	–	–	275
Charged against the provision for the period *	(440)	(1,360)	(1,869)
Provision at the end of the period	651	1,325	1,091

* These costs relate to a substantial refurbishment of NZ Lotteries' retailer outlets which is due to be completed by 30 June 2008.

16. Prize reserve account

	31/12/07 \$000	31/12/06 \$000	30/6/07 \$000
Opening balance	25,226	23,709	23,709
Amounts transferred based on game sales	13,068	13,347	25,852
Interest	2,607	2,253	4,580
Unclaimed prizes over twelve months old	6,162	6,212	12,575
Transfers to prize pools	(28,542)	(28,071)	(41,490)
	18,521	17,450	25,226

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

	31/12/07 \$000	31/12/06 \$000	30/6/07 \$000
Profit after distribution to the New Zealand Lottery Grants Board	3,842	13,294	5,396
<i>Adjustments for non-cash items:</i>			
Depreciation of property, plant and equipment	2,562	2,204	4,667
Amortisation of computer software	377	374	749
Revaluation of property, plant and equipment	–	–	(324)
<i>Changes in assets and liabilities</i>			
Decrease in receivables for current games	2,229	(6,102)	(4,893)
Increase in trade receivables	(259)	161	219
Decrease in prepayments	482	322	(610)
Decrease in stock	312	(894)	(1,408)
Increase in moneys received or receivable for games	1,396	(2,789)	(3,051)
Increase in prize liabilities	8,333	7,058	6,268
Increase in trade creditors	609	1,519	1,438
Decrease in provisions	(440)	(1,320)	(1,554)
Decrease in employee entitlements	(168)	136	(78)
Decrease in prize reserve account	(6,705)	(6,509)	1,517
<i>Investing activity items</i>			
Interest receipts	(3,732)	(3,671)	(7,362)
Gain / (loss) on sale fixed assets	9	(16)	(45)
<i>Financing activity items</i>			
Annuity prize liabilities	293	2,769	3,338
New Zealand Lottery Grants Board payables	68,500	64,500	147,500
Net cash inflow from operating activities	77,640	71,036	151,767

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

Part of the balance of cash and cash equivalents, and term deposits is restricted and may be used only for the payment of prizes.

	31/12/07 \$000	31/12/06 \$000	30/6/07 \$000
The total restricted amount is:	68,795	52,779	60,771



19. Related party information

NZ Lotteries is a wholly owned entity of the Crown, and has entered into a number of transactions with other entities within the Crown on an arms-length basis. Where those parties are acting in the course of their normal dealings with NZ Lotteries, related party disclosures have not been made for transactions of this nature.

There were no other related party transactions during the period.

20. Explanation of transition to New Zealand Equivalents to International Accounting Standards (NZ IFRS)

Transition to NZ IFRS

NZ Lotteries' financial statements for the six months ended 31 December 2007 are the first financial statements that comply with NZ IFRS, with the exception of NZ IAS 36 (Impairment of Assets) and NZ IAS 19 (Employee Benefits). NZ Lotteries has applied NZ IFRS 1 (First-time Adoption of NZ IFRS) in preparing these financial statements. NZ Lotteries' transition date is 1 July 2006 and, accordingly, the opening NZ IFRS balance sheet has been prepared as at that date.

Exemptions from full retrospective application elected by NZ Lotteries

In preparing the financial statements in accordance with NZ IFRS1, NZ Lotteries has applied the mandatory exceptions and not the optional exemptions from full retrospective application of NZ IFRS.

Reconciliation of equity

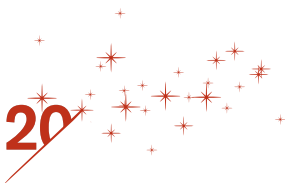
The change in equity, resulting from the transition from previous NZ GAAP to NZ IFRS as at 1 July 2006 and 31 December 2006, reflected a reduction in the provision of \$2,684,000 for the refurbishment of retailer premises as at 30 June 2006 by \$40,000. NZ IAS 37 (Provisions, Contingent Liabilities and Contingent Assets) requires that where the effect of the time value of money is material, the amount of the provision shall be the present value of the expenditures expected to be required to settle the obligation. In accordance with NZ IFRS 37, the present value of the provision was re-stated on 1 July 2006 as \$2,644,000. This adjustment resulted in an increase in equity of \$40,000 as at 1 July 2006. There was no change in equity as at 30 June 2007 resulting from the transition.

Reconciliation of profit

The effect of the transition was to reduce 31 December 2006 and 30 June 2007 profit by \$40,000 due to the provision being restated at the actual cost required to settle the obligation. Refer to the details above in the transition at 1 July 2006. The transition had no effect on profit for the six months ended 31 December 2007.

Asset reclassification

- Computer software (which is not integral to the operation of the hardware in property, plant and equipment) has been separated out from property, plant and equipment and reclassified as a separate intangible asset.
- Term deposits with maturities of up to three months from acquisition date are now reflected as part of cash and cash equivalents. Term deposits and other investments with maturities of more than three months from acquisition date are classified on their own. Previously, all term deposits, regardless of their maturity, were classified as investments.



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
Telephone 03-365 7365
Facsimile 03-365 7930

Board Members

John Goulter DCNZM, AFINSTD, FINSTM, JP
Presiding Member

Paddy Austin PhD
Deputy Presiding Member

Guy Herbert LLB (Hons), Dip TP

Laura Humphreys

John Wright

Senior Management

Todd McLeay,
Chief Executive, Auckland

Warren Salisbury,
Deputy Chief Executive and
Chief Financial Officer, Wellington

Karen Jones,
Head of Communications
and Government Relations, Wellington

Evan Lawrey,
General Manager Interactive, Auckland

Chris Lyman,
General Manager Retail Sales, Auckland

Wayne Pickup,
Chief Information Officer, Auckland

Wendy Rayner,
Head of Marketing, Auckland



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

www.nzlotteries.co.nz