



2007

Half Year Report

for the six months ended 31 December 2006



(Top left) NZ Lotteries CE Todd McLeay with the team at PAK'nSAVE Mt Albert in Auckland – our 700th store to be refurbished.

(Middle right) Christchurch's Hornby Mall Lotto staff receive their National 'Product Champion' award.

(Bottom left) Peter Black from Christchurch celebrates his \$200,000 Lotto Winning Wheel spin with his family. First on his shopping list are "new teeth and glasses".

(Bottom right) EFTPOS is now available in the majority of our outlets.



2007

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for the six months ended 31 December 2006

Results

for the six months ended
31 December 2006



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Financial Performance

- Sales for the period were \$377 million, \$17.8 million (5%) ahead of the same period last year. The result reflects the favourable impact of a full six months revenue for Big Wednesday, which was launched mid-way through the corresponding period last year. However, unlike last year, Lotto family sales did not benefit from large Powerball jackpots. A further increase in the number of outlets selling our lottery products has had a positive effect on sales.
- The net surplus for the half year amounted to \$77.8 million. This was \$3.8 million (5.2%) ahead of the same period last year.
- Operating expenses for the half year were \$26.2 million, similar to the same period last year. An increase in the depreciation charge, following implementation of the new gaming system in June 2006, was offset by cost reductions in other areas.
- As budgeted, payments totalling \$64.5 million were made to the Lottery Grants Board for distribution to fund sporting, arts and community activities around the country. This was \$10.5 million more than in same period last year.

Our Products

The Lotto Family (Lotto, Powerball & Strike) sales amounted to \$238.4 million for the period, down by 12.2% on last year. Powerball jackpotted less frequently than in the same period last year. The jackpot exceeded \$5 million on four weeks compared with 16 weeks last year. Powerball sales of \$60.5 million reflect this, being 17.1% behind last year. Strike sales amounted to \$33 million, 11.1% below the same period last year. Sales of Lotto itself, at \$145 million, were down by 10.3% on the same period last year.

Instant Kiwi sales of \$54.7 million were slightly ahead of the same period last year. More outlets, new games, strong Christmas sales and the launch of a new advertising campaign promoting the Instant Kiwi experience as a 'little thriller' contributed to this result.

Daily Keno sales, at \$12 million, were 3.6% ahead of the same period last year.

Big Wednesday achieved sales of \$71.8 million, up by \$49.6 million. Big Wednesday was launched in October 2005 and there were only ten draws in the same period last year. Sales continue to exceed expectations.



Highlights of the First Half

A strong sales performance in December from our Lotto family products, a special promotion to mark our 1,000th Lotto Draw, rejuvenated Instant Kiwi products and the continued popularity of Big Wednesday helped us exceed our sales and earnings budgets for the six months under review.

Our new mid-week jackpotting game, Big Wednesday, that celebrated its first birthday in October, continued to be very popular. The introduction of a new set of prizes in December resulted in a further lift in sales over the period leading up to the new year.



“I walked into that outlet with butterflies in my stomach. When I passed over the ticket I think they were just as overwhelmed as me,” said a \$100,000 Instant Kiwi winner.

A total of 70 players won Lotto First Division, winning an average of \$340,000 each, with seven also winning Lotto Powerball prizes ranging from \$1.3 million to \$9.6 million. There were 28 winners of prizes valued up to \$1,000,000 in Lotto's biggest ever Christmas Holiday promotion, plus more than 1,000 instant prize winners of \$1,001. From June to December the Lotto live TV draw featured 27 Winning Wheel winners, averaging \$220,000 per win, including two players who spun and won \$1 million each.

August marked the 1,000th Lotto Draw, a very important occasion on the NZ Lotteries' calendar. To celebrate, we held a special promotion featuring 1,100 extra prizes valued up to \$1 million. The support we received from players was particularly gratifying. In addition, there were Triple Dip promotions where ten Dream Year packages and ten Ford Mustang cars were won.

Lotto Powerball was won more frequently than the same period last year. The Powerball jackpot exceeded \$5 million on four weeks with the largest offer being \$9 million. In contrast, in the same period last year, there were three long runs culminating in wins worth \$8 million, \$8.8 million and \$14.5 million.

We continued to open new outlets, incorporating the new-look format. At the end of December there were 940 lottery outlets compared with 830 at the same time last year and 700 at the end of 2005. Our southern-most store was opened on Stewart Island and our eastern-most store opened at Te Araroa. During the six month period 143 existing stores were refurbished and more than two-thirds of the network now sports the new format. A Retail Champions' programme to recognise our top outlets was developed and implemented.

EFTPOS terminals, connected directly to our new Altura terminals, were installed at most retail stores during the period. This enables these retailers to offer a convenient EFTPOS option to customers wishing to purchase NZ Lotteries products.

Our new IT infrastructure gives us the core functionality to sell our products through new channels such as the internet, and a new executive position was established during this period to scope the future development of internet sales of our products.

We wish to place on record our thanks to Kay McKelvie and Dr Sally Jo Cunningham whose terms as Board members have come to an end.

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, as always, 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 and maintained customer service levels during this period.

Financial Statements

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for the six months ended
31 December 2006

Statement of Financial Performance

for the six months ended 31 December 2006

		31/12/06	% of	31/12/06	% of	31/12/05	% of	30/6/06	% of
	NOTE	6 Months	Sales	Budget	Sales	6 Months	Sales	12 Months	Sales
		\$000		\$000		\$000		\$000	
Sales (including GST)	2	376,958	100.0%	362,300	100.0%	359,195	100.0%	719,206	100.0%
Cost of sales	3	277,299	73.6%	268,107	74.0%	264,172	73.5%	529,096	73.6%
		99,659	26.4%	94,193	26.0%	95,023	26.5%	190,110	26.4%
Other revenue	4	4,407	1.2%	3,289	0.9%	5,059	1.4%	10,002	1.4%
		104,066	27.6%	97,482	26.9%	100,082	27.9%	200,112	27.8%
Operating expenses	5	26,232	7.0%	26,927	7.4%	26,098	7.3%	52,407	7.3%
Net surplus after operating expenses		77,834	20.6%	70,555	19.5%	73,984	20.6%	147,705	20.5%
Revaluation of land and building		-	-	-	-	-	-	(2,749)	-0.4%
Net surplus		77,834	20.6%	70,555	19.5%	73,984	20.6%	144,956	20.2%
Distribution to the New Zealand Lottery Grants Board		64,500	17.1%	64,500	17.8%	54,000	15.0%	138,589	19.3%
Net surplus after distribution to the New Zealand Lottery Grants Board		13,334	3.5%	6,055	1.7%	19,984	5.6%	6,367	0.9%

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



PAK'nSAVE Upper Hutt



Lotto's 1,000th Draw.

Statement of Movements in Equity

for the six months ended 31 December 2006

	31/12/06 6 Months \$000	31/12/06 Budget \$000	31/12/05 6 Months \$000	30/6/06 12 Months \$000
Net surplus for the period after distribution to the New Zealand Lottery Grants Board	13,334	6,055	19,984	6,367
Total recognised revenues and expenses for the period	13,334	6,055	19,984	6,367
Movements in equity for the period	13,334	6,055	19,984	6,367
Equity at the beginning of the period	36,277	36,276	29,910	29,910
Equity at the end of the period	49,611	42,331	49,894	36,277

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

Statement of Financial Position

as at 31 December 2006

	NOTE	31/12/06 \$000	31/12/05 \$000	30/6/06 \$000
ASSETS EMPLOYED				
Investments	6	79,798	101,780	97,229
Current assets	7	16,852	15,872	10,435
Fixed assets	8	35,162	18,886	35,154
Total assets employed		131,812	136,538	142,818
FUNDS EMPLOYED				
Current liabilities	9	58,913	69,698	78,329
Prize reserve account	10	17,450	13,065	23,709
Long term liabilities	11	5,838	3,881	4,503
Equity		49,611	49,894	36,277
Total funds employed		131,812	136,538	142,818

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



John Goulter DCNZM, JP
PRESIDING MEMBER
13 February 2007

Todd McLeay
CHIEF EXECUTIVE

Statement of Cash Flows

for the six months ended 31 December 2006

	NOTE	31/12/06 6 Months \$000	31/12/05 6 Months \$000	30/6/06 12 Months \$000
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash was provided from:				
Sale of game tickets		347,446	328,442	681,931
Interest received		3,857	3,180	6,788
Net GST received		407	2,235	–
Other receipts		4,738	4,525	9,199
Cash was applied to:				
Prize payments*		207,321	171,088	379,581
Lottery duty		19,620	19,314	40,235
Retailers' commission		25,560	24,153	50,215
Other payments		30,025	30,795	58,053
Net GST paid		–	–	611
Payments to the New Zealand Lottery Grants Board		84,589	59,397	123,397
Net cash inflow from operating activities	12	(10,667)	33,635	45,826
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash was provided from:				
Sale of fixed assets		545	6,655	6,709
Cash was applied to:				
Purchase of fixed assets		7,046	10,098	26,903
Net cash outflow from investing activities		(6,501)	(3,443)	(20,194)
Net increase (decrease) in cash held		(17,168)	30,192	25,632
Cash balance at the beginning of the period		97,240	71,608	71,608
Cash balance at the end of the period		80,072	101,800	97,240
Reconciliation of the cash balance at the end of the period with Statement of Financial Position items				
Bank and cash deposits		274	106	184
Cash book overdraft		–	(86)	(173)
Investments		79,798	101,780	97,229
Cash balance at the end of the period	13	80,072	101,800	97,240

* The timing of payments of large Lotto Powerball and Big Wednesday prizes can have a significant effect on the relationship between prizes paid and sales reported on a cash basis.

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

Statement of Commitments

as at 31 December 2006

	31/12/06	31/12/05	30/6/06
	\$000	\$000	\$000
Capital commitments approved and contracted	972	18,437	13
Non-cancellable operating lease commitments, payable:			
Not later than one year	327	500	335
Later than one year and not later than two years	160	327	319
Later than two years and not later than five years	–	159	–
Total non-cancellable operating lease commitments	487	986	654
Other non-cancellable contracts			
Not later than one year	10,298	7,500	5,957
Later than one year and not later than two years	4,138	5,271	4,302
More than two years and less than five years	9,154	12,356	11,100
More than five years	7,958	10,442	10,328
Total other non-cancellable contracts	31,548	35,569	31,687
Total commitments	33,007	54,992	32,354

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:

- Auckland office:** The previous Auckland office lease ended on 16 July 2006 and was not renewed.
- Christchurch office:** The existing lease runs until July 2007 with a renewal option for a further three years. The annual rental is \$20,140.
- Wellington office:** The existing 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 2006

There were no significant contingent liabilities at 31 December 2006, 31 December 2005 or 30 June 2006.

notes to the Financial Statements

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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, the Gambling Act 2003 and the Crown Entities Act 2004.

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 directly 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, 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, associated equipment and software	5–7 years
Other computer hardware and software	3 years
Leasehold improvements	5 years
Draw equipment	5 years
Furniture and fittings	10 years
Motor vehicles	4 years
Office equipment	5 years
Building - Structure	50 years
- Services	15 years
- Fit out	10 years

Goods and Services Tax (GST)

All items in the financial statements are exclusive of GST, with the exception of amounts due from retailers for current games, trade receivables, moneys received or receivable for games not drawn at balance date and trade creditors. Gross sales and cost of sales are recorded as inclusive of GST in the Statement of Financial Performance.

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

	31/12/06 6 Months \$000	31/12/06 Budget \$000	31/12/05 6 Months \$000	30/6/06 12 Months \$000
Lotto, Lotto Strike and Powerball	238,415	241,280	271,582	502,999
Instant Kiwi	54,742	53,000	53,878	104,783
Keno	11,962	11,120	11,545	22,582
Big Wednesday*	71,839	56,900	22,190	88,842
Sales including GST	376,958	362,300	359,195	719,206
GST	18,245	17,738	17,782	35,531
Sales net of GST	358,713	344,562	341,413	683,675

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

3. Cost of sales

	31/12/06 6 Months \$000	31/12/06 Budget \$000	31/12/05 6 Months \$000	30/6/06 12 Months \$000
GST	18,245	17,738	17,782	35,531
Lottery duty	20,733	19,927	19,756	39,557
Problem gambling levy	226	224	233	464
Retailers' commission	26,404	25,361	25,156	50,345
Prizes paid and payable	195,876	190,672	189,489	376,226
Prize reserve fund	13,347	11,953	9,253	21,930
Ticket costs	2,468	2,232	2,503	5,043
	277,299	268,107	264,172	529,096

4. Other revenue

	31/12/06 6 Months \$000	31/12/06 Budget \$000	31/12/05 6 Months \$000	30/6/06 12 Months \$000
Telecommunications and terminal maintenance cost recovery	2,363	2,210	2,162	4,460
Retailers' establishment fees	528	480	605	1,105
Interest	1,418	569	1,635	3,457
Other	98	30	657	980
	4,407	3,289	5,059	10,002

5. Operating expenses

	31/12/06 6 Months \$000	31/12/06 Budget \$000	31/12/05 6 Months \$000	30/6/06 12 Months \$000
Operating expenses include:				
Advertising, draws, other promotion and retail support	13,980	13,687	14,054	25,743
Audit fees for conducting the external audit	48	48	64	143
Audit fees for scrutineering lottery draws	71	60	47	176
Audit fees for other services	15	-	15	-
Commission members' fees	64	70	58	117
Depreciation of fixed assets	2,578	2,865	1,317	3,659
Gaming system	1,720	1,644	2,484	4,630
Interest	4	3	1	2
Leasing and renting costs	276	292	343	755
Staff costs	4,802	5,057	5,286	11,245
Other	2,674	3,201	2,429	5,937
	26,232	26,927	26,098	52,407

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

	31/12/06 6 Months \$000	31/12/05 6 Months \$000	30/6/06 12 Months \$000
On cost:			
Gaming computers and associated equipment	1,318	769	2,497
Other computer hardware and software	836	141	239
Leasehold improvements	-	116	249
Draw equipment	18	26	51
Furniture and fittings	48	21	48
Motor vehicles	97	105	205
Office equipment	59	21	63
Khyber Pass Road, Auckland	-	118	-
	2,376	1,317	3,352
On valuation:			
Building (Khyber Pass Road, Auckland)	202	-	307
	2,578	1,317	3,659



6. Investments

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

	31/12/06	31/12/06	31/12/06	31/12/05	31/12/05	31/12/05	30/6/06	30/6/06	30/6/06
	Carrying amount	Fair value	Purchase Yield	Carrying amount	Fair value	Purchase Yield	Carrying amount	Fair value	Purchase Yield
	\$000	\$000	%	\$000	\$000	%	\$000	\$000	%
On-call	4,412	4,412	7.25%	7,129	7,129	7.25%	4,231	4,231	6.75%
Maturing within 1 year	75,386	75,367	7.59%	94,651	94,637	7.21%	92,998	93,002	7.35%
	79,798	79,779	7.57%	101,780	101,766	7.22%	97,229	97,233	7.32%

	31/12/06	31/12/05	30/6/06
The weighted average effective interest rates were	7.21%	7.21%	7.32%

The fair value of the financial instruments is approximately equivalent to the carrying amount of the investments disclosed in the Statement of Financial Position.

7. Current assets

	31/12/06	31/12/05	30/6/06
	\$000	\$000	\$000
Bank and cash deposits	274	106	184
Due from retailers for current games	10,223	10,495	4,121
Trade receivables	232	446	393
Accrued interest	660	504	846
Prepayments	2,525	1,954	2,847
Instant Kiwi ticket stock	1,941	1,722	1,413
Stock	997	645	631
	16,852	15,872	10,435

8. Fixed assets

	Gross	Accumulated	Book	Gross	Accumulated	Book	Gross	Accumulated	Book
	31/12/06	31/12/06	31/12/06	31/12/05	31/12/05	31/12/05	30/6/06	30/6/06	30/6/06
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
At cost:									
Gaming computers and associated equipment	26,494	5,689	20,805	20,266	19,601	665	25,661	5,562	20,099
Other computer hardware and software	4,213	1,757	2,456	3,942	1,154	2,788	4,723	1,767	2,956
Leasehold improvements	138	136	2	2,121	1,978	143	351	346	5
Draw equipment	657	549	108	805	634	171	659	533	126
Furniture and fittings	1,139	324	815	704	415	289	1,204	350	854
Motor vehicles	798	328	470	865	438	427	829	448	381
Office equipment	843	429	414	1,010	899	111	1,329	868	461
Khyber Pass Road, Auckland	-	-	-	6,205	216	5,989	-	-	-
	34,282	9,212	25,070	35,918	25,335	10,583	34,756	9,874	24,882
At valuation:									
Land (Khyber Pass Road, Auckland)	3,300	-	3,300	-	-	-	3,300	-	3,300
Building (Khyber Pass Road, Auckland)	7,000	269	6,731	-	-	-	7,000	67	6,933
	10,300	269	10,031	-	-	-	10,300	67	10,233
Work in progress:									
Gaming computers and associated equipment	-	-	-	5,579	-	5,579	-	-	-
Other computer hardware and software	-	-	-	-	-	-	39	-	39
Building renovations	61	-	61	2,724	-	2,724	-	-	-
	61	-	61	8,303	-	8,303	39	-	39
	44,643	9,481	35,162	44,221	25,335	18,886	45,095	9,941	35,154

The Commission's freehold land and building are stated at their 31 May 2006 valuation as determined by an independent registered valuer, TelferYoung (Auckland) Ltd, less accumulated depreciation in the case of the building. The resultant write down on the building was recognised in the Statement of Financial Performance for the year ended 30 June 2006. Work in progress amounting to \$61,000 was included in the Gross and Book Value totals at 31 December 2006 (\$39,000 at 30 June 2006).

9. Current liabilities

	31/12/06 \$000	31/12/05 \$000	30/6/06 \$000
Cash book overdraft (unsecured)	–	86	173
Moneys received or receivable for games not drawn at balance date	1,885	1,090	4,674
Prize liabilities	35,739	45,077	28,502
Trade creditors	6,705	10,110	6,478
Payable to the New Zealand Lottery Grants Board	4,500	4,000	24,589
Accrued expenses	8,179	5,225	10,622
Employee entitlements	580	575	606
Provision	1,325	3,535	2,685
	58,913	69,698	78,329

Credit Facilities

The Commission has a bank overdraft facility as at 31 December 2006 of \$2,000,000 with Westpac Banking Corporation.

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

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:

	31/12/06 6 Months \$000	31/12/05 6 Months \$000	30/6/06 12 Months \$000
Provision at the beginning of the period	2,685	4,465	4,465
Charged against the provision for the period*	(1,360)	(930)	(1,780)
Provision at the end of the period	1,325	3,535	2,685

* These costs relate to a substantial refurbishment of the Commission's retailer outlets which is due to be completed by 31 December 2007.

10. Prize reserve account

	31/12/06 \$000	31/12/05 \$000	30/6/06 \$000
Opening balance	23,709	10,968	10,968
Amounts transferred based on game sales	13,347	9,253	21,930
Interest	2,253	1,628	3,756
Unclaimed prizes over twelve months old	6,212	5,632	13,138
Transfers to prize pools	(28,071)	(14,416)	(26,083)
	17,450	13,065	23,709

11. Long term liabilities

	31/12/06	31/12/05	30/6/06
	\$000	\$000	\$000
Prize liabilities*	5,838	3,881	4,469
Employee entitlements	–	–	34
Total	5,838	3,881	4,503

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

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

	31/12/06	31/12/05	30/6/06
	\$000	\$000	\$000
Net surplus per Statement of Financial Performance	13,334	19,984	6,367
Add non-cash items:			
Depreciation of fixed assets	2,578	1,317	3,659
Revaluation of fixed assets	–	–	2,749
Add (deduct) movements in working capital items:			
Increase in receivables for current games	(6,102)	(8,968)	(2,594)
Decrease in trade receivables	161	(132)	(79)
Increase in accrued interest	186	(83)	(425)
Decrease in prepayments	322	(71)	(964)
Increase in stock	(894)	213	536
Decrease in moneys received or receivable for games	(2,789)	(2,170)	1,414
Increase in prize liabilities	8,289	24,734	9,064
Increase in trade creditors	3,616	3,053	(1,861)
Decrease in provisions	(3,140)	(930)	–
Decrease in employee entitlements	136	(11)	54
Decrease in prize reserve account	(6,259)	2,097	12,741
Decrease in New Zealand Lottery Grants Board payables	(20,089)	(5,397)	15,192
Less item classified as investing activity:			
Loss on sale of fixed assets	(16)	(1)	(27)
Net cash inflow from operating activities	(10,667)	33,635	45,826

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.

	31/12/06	31/12/05	30/6/06
	\$000	\$000	\$000
The total restricted amount is:	52,779	56,797	59,218

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14. Related party information

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

There were no other related party transactions during the period.

15. Major budget variations

The net surplus for the half year amounted to \$77.834 million, 10.3% above budget. This is mainly a reflection of Big Wednesday revenues exceeding expectations.

16. International Financial 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 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 currently converting its accounting policies and reporting processes to NZ IFRS to enable it to report on the new basis as from the financial year beginning 1 July 2007.

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Presiding Member

Paddy Austin PhD

Deputy Presiding Member

Sally Jo Cunningham PhD (Computer Science)

(term ended 31 January 07)

Guy Herbert LLB (Hons), Dip TP

Kay McKelvie LLB, MBA

(term ended 31 October 06)

Executive Team

Todd McLeay,

Chief Executive, Auckland

Warren Salisbury,

Deputy Chief Executive and
Chief Financial Officer, Wellington

Evan Lawrey,

General Manager – Interactive, Auckland

Chris Lyman,

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