



NZ LOTTERIES

HALF YEAR REPORT 2009

for the six months ended 31 December 2008



The background of the entire page is a vibrant red sunburst pattern. The rays originate from a single point on the right edge and fan out towards the left, creating a sense of dynamic movement and energy. The rays vary in thickness and spacing, contributing to a textured, radiating effect.

HALF YEAR REPORT 2009

for the six months ended 31 December 2008

ISSN 1179-0156

RESULTS

for the six months ended 31 December 2008

Financial Performance

Sales for the period were \$442.3 million, \$70.3 million (18.9%) ahead of the same period last year. This result is exceptional and was primarily driven by Lotto Family (Lotto, Powerball and Strike) sales, which benefited from an unprecedented long Powerball jackpot run that culminated in a \$30 million 'Must Be Won' draw during the period.

The profit for the half year amounted to \$92.3 million, \$19.9 million (27.5%) above the same period last year and \$15 million (19.5%) up on budget. In relation to sales, expenses equated to 6.7% as against a budgeted 7.4%.

As budgeted, payments totalling \$71 million were made to the NZ Lottery Grants Board for distribution to fund sporting, arts and community activities around the country. This was \$2.5 million more than in the same period last year.

Our Products

It was a very successful six months for the Lotto Family with sales of \$322.2 million, up by 34.7% on last year. Sales were materially boosted by Lotto's extraordinary Powerball jackpot run. The last three weeks of this jackpot run generated around \$45 million in extra sales for NZ Lotteries.

Powerball jackpotted more frequently than in the same period last year, and its First Division prize offer exceeded \$5 million on sixteen draws compared with eight draws for the same period last year. Statistically, a jackpot run of this length will occur, on average, once in every four or five years.

Instant Kiwi sales were \$55.7 million, 1.5% lower than in the same period last year. Instant Kiwi is an impulse purchase for most customers; therefore this product is the most likely of NZ Lotteries' portfolio to be adversely affected by the tightening retail environment.

Keno continued to produce steady sales, maintaining the same level as last year at \$12.7 million.

Big Wednesday sales were \$51.7 million, 18.8% lower than in the same period last year. Big Wednesday's First Division was frequently won at early stages of the jackpot cycle during this period, and its prize offering was frequently overshadowed by the larger Powerball jackpots. A planned refresh of the game in December helped to lift average weekly sales towards the end of this financial period.



Highlights of the First Half

The sixteen-week Powerball jackpot from July to October led to record sales and unprecedented media coverage for NZ Lotteries. The excitement of the largest-ever \$30 million Powerball jackpot grabbed the attention of the whole country. In the final stages of the jackpot run, demand for tickets led to long queues at retail stores and resulted in NZ Lotteries' best-ever sales week.

Changes to our mid-week game, Big Wednesday, were introduced in December 2008. It is early days for the new approach, but a new line up of prizes, refreshed advertising campaign, and associated draw format, have lifted sales in the early weeks of the jackpot cycle.

A total of 71 players won Lotto First Division in the period, winning an average of \$452,618 each. Lotto's 21st birthday in August created three new millionaires from a prize pool worth more than \$5.4 million. Lotto celebrated Father's Day in September with a promotion featuring 10 HSV cars and 10 Harley Davidson Fatboy motorcycles. There were also 100 extra prizes won in Lotto's Holiday 100 promotion in December ranging from \$10,000 to \$1 million.

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

The top Powerball prize was struck three times during the period, with prizes of \$3.2 million, \$5.2 million and \$7.7 million. There were also five Powerball Second Division winners who each won \$6.1 million when the 'Must Be Won' draw was called in October due to the Powerball jackpot reaching the \$30 million maximum.

Four players won Big Wednesday First Division between 1 July and 31 December 2008, winning prizes worth between \$2.9 million and \$3.1 million.

A revamped Instant Kiwi communications campaign was launched in the lead-up to Christmas using the new proposition 'Live a Little'.

The retailer incentive programme, 'Game On!' began its second year in July after a successful first year. The programme has been slightly modified following feedback from retailers and staff.

NZ Lotteries' online sales channel, MyLotto, performed steadily in the six months to 31 December 2008. Online sales comprised around 2.5 per cent of total sales.

Prospects for the Full Year

After such a strong start to the year, we are confident that sales and profit for the full year will exceed budget. The final result will depend primarily on jackpotting luck for Powerball and Big Wednesday during the second six months, and on conditions in the retail market generally. The current adverse economic climate may affect future sales. However, to date, NZ Lotteries' sales are holding up well despite the tighter retail environment.

We thank all customers, retailers and staff for their continuing support. Your support enables NZ Lotteries to continue to deliver a good level of return to the NZ Lottery Grants Board for distribution back to worthwhile community causes.



FINANCIAL STATEMENTS

for the six months ended 31 December 2008

Income Statement

for the six months ended 31 December 2008

		31/12/08 6 Months \$000	31/12/08 Budget \$000	31/12/07 6 Months \$000	30/6/08 12 Months \$000
	Note				
Revenues	2	425,648	375,417	359,006	749,955
Cost of Sales	3	303,924	269,184	258,052	536,775
Gross profit		121,724	106,233	100,954	213,180
Expenses					
Promotion and retail support		14,589	13,489	15,234	27,781
Property, plant and equipment depreciation	4	3,061	3,311	2,562	5,781
Computer software amortisation		639	572	377	903
Gaming system expenses excluding depreciation		2,972	2,881	2,260	5,000
Employee benefits		5,035	5,005	4,448	9,212
Other	5	3,168	3,753	3,731	7,682
Total expenses		29,464	29,011	28,612	56,359
Profit		92,260	77,222	72,342	156,821
Distribution to the New Zealand Lottery Grants Board		71,000	71,000	68,500	156,821
Profit after distribution to the New Zealand Lottery Grants Board		21,260	6,222	3,842	-

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 2008

	31/12/08 6 Months \$000	31/12/08 Budget \$000	31/12/07 6 Months \$000	30/6/08 12 Months \$000
Profit after distribution to the New Zealand Lottery Grants Board	21,260	6,222	3,842	-
Total recognised revenues and expenses for the period	21,260	6,222	3,842	-
Equity at beginning of the period	41,713	41,713	41,713	41,713
Net profit for the period as above	21,260	6,222	3,842	-
Equity at the end of the period	62,973	47,935	45,555	41,713

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

Balance Sheet

as at 31 December 2008

	Note	31/12/08 \$000	31/12/07 \$000	30/6/08 \$000
Assets				
Current assets				
Cash and cash equivalents	6,8	79,895	72,862	90,663
Term deposits	7,8	30,052	14,741	-
Debtors and other receivables	9	2,679	7,218	6,664
Prepayments		3,488	2,975	3,561
Inventories	10	2,409	3,140	2,735
Total current assets		118,523	100,936	103,623
Non-current assets				
Property, plant and equipment	11	31,271	32,875	34,168
Computer software	12	2,731	2,874	3,380
Total non-current assets		34,002	35,749	37,548
Total assets		152,525	136,685	141,171
Liabilities				
Current liabilities				
Creditors and other payables	13	61,753	65,154	70,345
Annuity prize liabilities		1,225	1,249	1,225
Provision	14	-	651	-
Employee entitlements		692	618	604
Total current liabilities		63,670	67,672	72,174
Long term liabilities				
Annuity prize liabilities	15	3,959	4,937	4,576
Employee entitlements		-	-	50
Total long term liabilities		3,959	4,937	4,626
Prize reserve account	16	21,923	18,521	22,658
Total liabilities		89,552	91,130	99,458
Equity		62,973	45,555	41,713
Total liabilities and equity		152,525	136,685	141,171

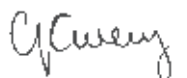
The accompanying notes form part of this statement and should be read in conjunction with it



John Goulter DCNZM, JP

CHAIR

18 February 2009



Chris Curley

BOARD MEMBER

Statement of Cash Flows

for the six months ended 31 December 2008

		31/12/08	31/12/07	30/6/08
	Note	6 Months \$000	6 Months \$000	12 Months \$000
Cash flows from operating activities				
Sales		428,729	356,558	742,746
Net GST received		70	2,492	260
Other receipts		3,336	3,566	7,295
Prize payments		(257,745)	(206,785)	(431,168)
Lottery duty		(24,805)	(18,959)	(42,307)
Retailers' commission		(30,889)	(26,290)	(54,649)
Employee costs		(5,143)	(4,452)	(9,082)
Other payments		(23,811)	(28,490)	(47,267)
Net cash flow from operating activities	17	89,742	77,640	165,828
Cash flows from investing activities				
Net (increase) / reduction in term deposits		(30,052)	27,882	42,623
Sale of property, plant and equipment		70	54	64
Interest received		4,060	3,732	8,068
Purchase of property, plant and equipment		(1,018)	(2,666)	(5,984)
Purchase of computer software		(26)	(1,603)	(2,781)
Net cash flow from investing activities		(26,966)	27,399	41,990
Cash flows from financing activities				
Discharge of annuity prize liabilities		(1,225)	(1,249)	(1,225)
Payments to the New Zealand Lottery Grants Board		(72,319)	(71,393)	(156,395)
Net cash flow from financing activities		(73,544)	(72,642)	(157,620)
Net (decrease) / increase in cash balances		(10,768)	32,397	50,198
Opening cash and cash equivalents balance		90,663	40,465	40,465
Closing cash and cash equivalents balance	6	79,895	72,862	90,663

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

Statement of Commitments

as at 31 December 2008

	31/12/08	31/12/07	30/6/08
	\$000	\$000	\$000
Capital commitments approved and contracted			
Property, plant and equipment	33	3,053	199
Computer software	-	754	-
Total capital commitments	33	3,807	199
Non-cancellable operating lease commitments, payable			
Not later than one year	374	195	374
Later than one year and not later than two years	374	33	374
Later than two years and not later than five years	252	99	440
Later than five years	-	16	-
Total non-cancellable operating lease commitments	1,000	343	1,188
Other non-cancellable contracts			
Not later than one year	8,716	12,142	11,633
Later than one year and not later than two years	4,270	4,884	5,049
Later than two years and not later than five years	12,122	7,337	6,292
Later than five years	-	5,339	4,290
Total other non-cancellable contracts	25,108	29,702	27,264
Total commitments	26,141	33,852	28,651

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 2011 with a further right of renewal option for three years.

The annual rental is \$340,788.

Statement of Contingent Liabilities and Contingent Assets

as at 31 December 2008

There were no contingent liabilities or contingent assets at either 31 December 2008, 31 December 2007 or 30 June 2008.

NOTES TO THE FINANCIAL STATEMENTS

(1) Statement of accounting policies for the 6 months ended 31 December 2008

Reporting Entity

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

Basis of Preparation

Audit opinion

Audit New Zealand have reviewed these financial statements and nothing came to their attention that caused them to believe that the financial statements do not fairly reflect the operations and cashflows of the Commission for the six months ended 31 December 2008 and its assets and liabilities as at that date.

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

The comparative figures have been extracted from published financial statements.

Accounting compliance

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

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

Basis of measurement

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

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

Accounting Policies

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

Budget figures

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

Changes in accounting policies

There have been no changes in accounting policies since the date of the audited financial statements for the year ended 30 June 2008.

Comparatives

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

Computer software

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

The useful life of computer software is reviewed at least annually to determine if there is any indication of impairment. Where any software's recoverable amount is less than its carrying amount, it is reported at its recoverable amount and an impairment loss will be recognised in the 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 using the effective interest rate method. Any changes in value are recorded through the prize reserve account.

Foreign currency transactions

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

Goods and Services Tax (GST)

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

Inventories

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

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

Interest

Interest income is recognised using the effective interest rate method.

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

Judgements and estimations

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

Leases

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

Prize reserve account

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

Property, plant and equipment

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

Revaluations

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

The carrying values of revalued items are reviewed at each financial year end to ensure that those values are

not materially different to fair value. Additions between revaluations are recorded at cost. Any impairment loss is recognised in the income statement.

Additions

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

Disposals

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

Subsequent costs

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

Depreciation

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

Gaming computers, associated equipment and integral software	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

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

Provisions

Provisions are recorded at the best estimate of the expenditure required to settle the obligation. Provisions to be settled beyond twelve 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; and
- Fringe benefit tax.

(2) Revenues

	31/12/08 6 Months \$000	31/12/08 Budget \$000	31/12/07 6 Months \$000	30/6/08 12 Months \$000
Retailer Sales				
Lotto, Lotto Strike and Powerball	322,168	253,160	239,173	523,933
Instant Kiwi	55,671	57,527	56,502	111,196
Keno	12,741	12,794	12,702	24,871
Big Wednesday	51,704	67,500	63,636	117,960
Sales including GST	442,284	390,981	372,013	777,960
Less GST	21,218	19,294	17,918	37,680
Sales excluding GST	421,066	371,687	354,095	740,280
Other Revenue				
Telecommunications and terminal maintenance cost recovery	2,683	2,367	2,435	5,005
Retailers' establishment fees	255	300	353	623
Interest	1,329	1,040	1,125	2,569
Sundry	315	23	998	1,478
	4,582	3,730	4,911	9,675
Total Revenues	425,648	375,417	359,006	749,955

In the financial statements for the six months ended 31 December 2007, other revenue classified as 'other' was stated at \$12,000 rather than \$998,000 as stated in the 'sundry' comparatives above. The restatement has been made so that all revenues and costs are disclosed in the financial statements on a gross basis. The adjustment is in respect of the cost of goods sold to retailers (now included as part of cost of sales).

(3) Cost of Sales

	31/12/08 6 Months \$000	31/12/08 Budget \$000	31/12/07 6 Months \$000	30/6/08 12 Months \$000
Lottery duty	24,326	21,504	20,461	42,788
Problem gambling levy	370	347	331	680
Retailers' commission & MyLotto transaction fees	30,404	27,240	26,048	54,412
Prizes paid and payable	230,270	202,634	194,305	405,208
Prize reserve account	15,537	14,698	13,068	26,789
Ticket costs	2,470	2,761	2,657	5,251
Cost of goods sold to retailers	547	-	1,182	1,647
	303,924	269,184	258,052	536,775

(4) Property, Plant and Equipment Depreciation

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

	31/12/08 6 Months \$000	31/12/08 Budget \$000	31/12/07 6 Months \$000	30/6/08 12 Months \$000
On cost				
Gaming computers and associated equipment	2,256	2,450	1,765	4,120
Other computer hardware	241	300	286	576
Leasehold improvements	112	112	73	203
Draw equipment	36	36	36	72
Furniture and fittings	55	55	52	108
Motor vehicles	100	100	93	185
Office equipment	55	53	55	112
	2,855	3,106	2,360	5,376
On cost or valuation				
Building (Khyber Pass Road, Auckland)	206	205	202	405
	3,061	3,311	2,562	5,781

(5) Other Expenses

	31/12/08 6 Months \$000	31/12/08 Budget \$000	31/12/07 6 Months \$000	30/6/08 12 Months \$000
Audit fees for conducting the external audit	74	74	80	151
Audit fees for scrutineering lottery draws	67	60	60	141
Audit fees for other services	-	-	-	-
Commission members' fees	62	74	67	137
Interest	2	4	2	7
Premises costs	533	568	487	1,016
IT & Telecommunications	1,000	1,044	1,050	2,332
Other	1,430	1,929	1,985	3,898
	3,168	3,753	3,731	7,682

(6) Cash and Cash Equivalents

	31/12/08 \$000	31/12/07 \$000	30/6/08 \$000
Cash and bank balance	(25)	71	230
Short term deposits	79,451	72,498	89,776
Accrued interest	469	293	657
	79,895	72,862	90,663

(7) Term Deposits

	31/12/08 \$000	31/12/07 \$000	30/6/08 \$000
Term deposits	30,000	14,500	-
Accrued interest	52	241	-
	30,052	14,741	-

(8) Fair Value of Investments

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

	31/12/08 Carrying amount \$000	31/12/08 Fair value \$000	31/12/08 Purchase yield %	31/12/07 Carrying amount \$000	31/12/07 Fair value \$000	31/12/07 Purchase yield %	30/6/08 Carrying amount \$000	30/6/08 Fair value \$000	30/6/08 Purchase yield %
On-call	10,579	10,579	5.00%	7,173	7,173	8.25%	22,342	22,342	8.25%
Maturing within 1 year	98,872	98,875	5.87%	79,825	79,816	8.72%	67,434	67,427	8.75%
	109,451	109,454	5.79%	86,998	86,989	8.68%	89,776	89,769	8.63%

Represented in the balance sheet as:

	31/12/08 Carrying amount \$000	31/12/08 Fair value \$000	31/12/07 Carrying amount \$000	31/12/07 Fair value \$000	30/6/08 Carrying amount \$000	30/6/08 Fair value \$000
<i>Cash and cash equivalents</i> - maturities up to three months from acquisition date	79,451	79,454	72,498	72,490	89,776	89,769
<i>Term deposits</i> - maturities of more than three months from acquisition date	30,000	30,000	14,500	14,499	-	-
	109,451	109,454	86,998	86,989	89,776	89,769

(9) Debtors and Other Receivables

	31/12/08	31/12/07	30/6/08
	\$000	\$000	\$000
Due from retailers for current games	2,635	6,785	6,496
Trade receivables	44	433	168
	<u>2,679</u>	<u>7,218</u>	<u>6,664</u>

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

	31/12/08	31/12/07	30/6/08
	\$000	\$000	\$000
Not past due	2,617	7,159	6,547
Past due 1-30 days	37	11	21
Past due 31-60 days	15	32	29
Past due 61-90 days	3	12	47
Past due > 91 days	7	4	20
	<u>2,679</u>	<u>7,218</u>	<u>6,664</u>

(10) Inventories

	31/12/08	31/12/07	30/6/08
	\$000	\$000	\$000
Instant Kiwi ticket stock	1,991	2,018	1,892
Other stock	418	1,122	843
	<u>2,409</u>	<u>3,140</u>	<u>2,735</u>

The write-down of inventories held for sale amounted to \$292,630 as at 31 December 2008. There have been no reversals of write-downs. No inventories are pledged as security for liabilities.

(11) Property, Plant and Equipment

	31/12/08	31/12/07	30/6/08
	\$000	\$000	\$000
Land - Khyber Pass Road, Auckland	3,300	3,300	3,300
Building structure - Khyber Pass Road, Auckland			
Cost or valuation	2,660	2,660	2,660
Additions	-	-	-
Valuation at end of period	2,660	2,660	2,660
Accumulated depreciation at beginning of period	115	62	62
Depreciation for the period	27	27	53
Accumulated depreciation at end of period	142	89	115
Carrying amount at end of period	2,518	2,571	2,545

	31/12/08 \$000	31/12/07 \$000	30/6/08 \$000
Building services - Khyber Pass Road, Auckland			
Cost or valuation	2,564	2,520	2,520
Additions	10	-	44
Valuation at end of period	2,574	2,520	2,564
Accumulated depreciation at beginning of period	365	196	196
Depreciation for the period	86	84	169
Accumulated depreciation at end of period	451	280	365
Carrying amount at end of period	2,123	2,240	2,199
Building fitout - Khyber Pass Road, Auckland			
Cost or valuation	1,845	1,820	1,820
Additions	22	-	25
Valuation at end of period	1,867	1,820	1,845
Accumulated depreciation at beginning of period	395	212	212
Depreciation for the period	93	91	183
Accumulated depreciation at end of period	488	303	395
Carrying amount at end of period	1,379	1,517	1,450
Leasehold improvements			
Cost at beginning of period	1,016	158	158
Additions	-	860	863
Disposals	-	(2)	(5)
Cost at end of period	1,016	1,016	1,016
Accumulated depreciation at beginning of period	339	137	137
Depreciation for the period	112	73	203
Disposals	-	-	(1)
Accumulated depreciation at end of period	451	210	339
Carrying amount at end of period	565	806	677
Gaming computer equipment			
Cost at beginning of period	31,132	26,890	26,890
Additions	26	(584)	5,870
Disposals	(7)	(24)	(1,628)
Cost at end of period	31,151	26,282	31,132
Accumulated depreciation at beginning of period	9,440	6,930	6,930
Depreciation for the period	2,256	1,763	4,120
Disposals	(2)	(6)	(1,610)
Accumulated depreciation at end of period	11,694	8,687	9,440
Carrying amount at end of period	19,457	17,595	21,692

	31/12/08 \$000	31/12/07 \$000	30/6/08 \$000
Other computer hardware			
Cost at beginning of period	2,310	2,011	2,011
Additions	-	96	302
Disposals	(97)	-	(3)
Cost at end of period	2,213	2,107	2,310
Accumulated depreciation at beginning of period	1,726	1,152	1,152
Depreciation for the period	241	286	576
Disposals	-	-	(2)
Accumulated depreciation at end of period	1,967	1,438	1,726
Carrying amount at end of period	246	669	584
Draw equipment			
Cost at beginning of period	666	835	835
Additions	2	(16)	-
Disposals	-	-	(169)
Cost at end of period	668	819	666
Accumulated depreciation at beginning of period	472	552	552
Depreciation for the period	36	36	72
Disposals	-	-	(152)
Accumulated depreciation at end of period	508	588	472
Carrying amount at end of period	160	231	194
Furniture and fittings			
Cost at beginning of period	1,218	1,124	1,124
Additions	2	105	166
Disposals	(7)	(71)	(72)
Cost at end of period	1,213	1,158	1,218
Accumulated depreciation at beginning of period	384	317	317
Depreciation for the period	55	52	108
Disposals	(7)	(40)	(41)
Accumulated depreciation at end of period	432	329	384
Carrying amount at end of period	781	829	834

	31/12/08 \$000	31/12/07 \$000	30/6/08 \$000
Motor vehicles			
Cost at beginning of period	742	687	687
Additions	232	136	167
Disposals	(182)	(90)	(112)
Cost at end of period	792	733	742
Accumulated depreciation at beginning of period	355	267	267
Depreciation for the period	100	93	185
Disposals	(144)	(80)	(97)
Accumulated depreciation at end of period	311	280	355
Carrying amount at end of period	481	453	387
Office equipment			
Cost at beginning of period	763	840	840
Additions	9	9	49
Disposals	(9)	(118)	(126)
Cost at end of period	763	731	763
Accumulated depreciation at beginning of period	457	470	470
Depreciation for the period	54	55	112
Disposals	(9)	(117)	(125)
Accumulated depreciation at end of period	502	408	457
Carrying amount at end of period	261	323	306
Work in progress			
Cost at beginning of period	-	514	514
Additions	-	1,829	-
Capitalised	-	-	(514)
Cost at end of period	-	2,343	-
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	-
Total property, plant and equipment	31,271	32,875	34,168

NZ Lotteries' 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. TelferYoung assessed the current market value as \$10.3 million as at 31 May 2006.

The valuers have confirmed that the \$9.3 million net book value at 31 December 2008 remains indicative of the property's current valuation.

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

(12) Computer Software

	31/12/08 \$000	31/12/07 \$000	30/6/08 \$000
In use			
Cost at beginning of period	5,545	2,427	2,427
Additions	-	585	3,118
Disposals	(10)	-	-
Cost at end of period	5,535	3,012	5,545
Accumulated amortisation at beginning of period	2,165	1,262	1,262
Amortisation for the period	639	378	903
Accumulated amortisation at end of period	2,804	1,640	2,165
Carrying amount at end of period	2,731	1,372	3,380
Work in progress			
Cost at beginning of period	-	309	309
Additions	-	1,193	-
Capitalised	-	-	(309)
Carrying amount at end of period	-	1,502	-
Total computer software	2,731	2,874	3,380

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

(13) Creditors and Other Payables

	31/12/08 \$000	31/12/07 \$000	30/6/08 \$000
Moneys received or receivable for games not drawn at balance date	4,049	3,019	2,053
Prize liabilities	35,047	42,314	42,402
MyLotto player accounts	1,031	-	632
Trade creditors	7,965	8,635	6,437
Payable to the New Zealand Lottery Grants Board	8,000	6,000	9,319
Accrued expenses	5,661	5,186	9,502
	61,753	65,154	70,345

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 2008 of \$2,000,000 with Westpac Banking Corporation. The interest rate on NZ Lotteries' bank overdraft facility was 9.75% per annum if utilised.

(14) Provision

	31/12/08 \$000	31/12/07 \$000	30/6/08 \$000
The movement in the provision for restructuring is as follows:			
Provision at the beginning of the period	-	1,091	1,091
Additional provision made during the period	-	-	-
Charged against the provision for the period	-	(440)	(934)
Reversal of unused portion of period	-	-	(157)
Provision at the end of the period	-	651	-

(15) Annuity Prize Liabilities

	31/12/08 Amounts payable \$000	31/12/08 Fair value \$000	31/12/07 Amounts payable \$000	31/12/07 Fair value \$000	30/6/08 Amounts payable \$000	30/6/08 Fair value \$000
	4,920	3,959	6,197	4,937	5,735	4,576

(16) Prize Reserve Account

	31/12/08 \$000	31/12/07 \$000	30/6/08 \$000
Opening balance	22,658	25,226	25,226
Amounts transferred based on game sales	15,537	13,068	26,789
Interest	2,731	2,607	5,499
Unclaimed prizes over twelve months old	8,855	6,162	12,459
Transfers to prize pools	(27,858)	(28,542)	(47,315)
	21,923	18,521	22,658

(17) Reconciliation of Net Cash Flow from Operating Activities with Net Surplus

	31/12/08 \$000	31/12/07 \$000	30/6/08 \$000
Profit after distribution to the New Zealand Lottery Grants Board	21,260	3,842	-
Adjustments for non-cash items:			
Depreciation of property, plant and equipment	3,061	2,562	5,781
Amortisation of computer software	639	377	903
Revaluation of property, plant and equipment	-	-	-
Changes in assets and liabilities			
Decrease in receivables for current games	3,861	2,229	2,518
Decrease in trade receivables	124	(259)	6
Decrease in prepayments	73	482	(104)
Decrease in stock	326	312	717
Increase in moneys received or receivable for games	1,996	1,396	430
Decrease in prize liabilities	(7,355)	8,333	8,422
Decrease in trade creditors	(916)	609	2,078
Decrease in provisions	-	(440)	(1,091)
Decrease in employee entitlements	(113)	(168)	91
Decrease in prize reserve account	(735)	(6,705)	(2,568)
Investing activity items			
Interest receipts	(4,060)	(3,732)	(8,068)
(Gain) / loss on sale of fixed assets	(27)	9	8
Financing activity items			
Annuity prize liabilities	608	293	(116)
Distribution to the New Zealand Lottery Grants Board	71,000	68,500	156,821
Net cash inflow from operating activities	89,742	77,640	165,828

(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.

	31/12/08 \$000	31/12/07 \$000	30/6/08 \$000
Total restricted amount is:	56,960	68,795	78,909

(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.

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Board Members *(as at 31 December 2008)*

John Goulter DCNZM, JP
Chair

Laura Humphreys
Deputy Chair

Chris Curley

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

Andrew McLeish
Acting Head of Marketing, Auckland

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Chief Technology Officer, Auckland



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