



NEW ZEALAND RACING BOARD

STATEMENT OF INTENT 2012-2015

NEW ZEALAND
RACING BOARD





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This Statement of Intent for the NZ Racing Board meets the requirements of section 19 of the Racing Act 2003. It is for the financial years ending 31 July 2013, 2014 and 2015. This statement sets out the overall intentions and objectives of the NZ Racing Board during this three-year period.

It should be noted that, due to significant recent changes to the governance structure of the NZ Racing Board, this Statement of Intent should be viewed strictly as a transitional document only and that the intentions and initiatives outlined may be subject to change. A full review of the intentions and initiatives outlined in this document will be undertaken by the new Board in due course and any changes will be advised by the end of December 2012.

On behalf of the NZ Racing Board.

Dr Alan Jackson, Chairman

ABOUT THE NZ RACING BOARD

WHO WE ARE

When you bet with the TAB on the gallops, trots or greyhounds, take a punt on the All Blacks or European football, every betting dollar contributes to the sustainability, development and growth of racing and sport in New Zealand and livelihoods of hundreds of thousands of Kiwis involved in these sectors.

The New Zealand Racing Board was established in 2003 under the Racing Act to administer all racing and sports wagering in New Zealand.

We are a major entertainment business with more than 148,000 TAB account-holders and a retail network comprising more than 640 outlets.

The NZ Racing Board directly employs 970 personnel (full-time, part-time and casual), with the majority of these people involved in the various facets that make up the TAB operation – scheduling daily racing for customers in New Zealand, selling racing and sports bets through our retail network, online and telephony channels, or the broadcast of racing on our national channels Trackside TV, TAB TV and Radio Trackside.

We support betting on more than 50,000 domestic and imported thoroughbred, harness and greyhound races each season, as well as on a rapidly growing number of domestic and international sporting events.

After operating costs and expenses, our profit is distributed to the three New Zealand Racing Codes – New Zealand Thoroughbred Racing, Harness Racing New Zealand and Greyhound Racing New Zealand – in accordance with an agreed funding model. We also pay levies to national sporting bodies for sports on which we take bets.

In 2010 the NZ Racing Board commissioned research consultants IER to quantify the size and scope of the racing industry in New Zealand.¹

The research found the racing industry generated significant revenue and employment benefits to New Zealand, with more than 52,000 people involved in an industry worth more than \$1.6 billion annually (0.9% of total GDP) to the country.

The NZ Racing Board is committed to the highest and most robust standards in addressing issues around problem gambling, with industry-leading programmes set up alongside relationships with the Ministry of Health, Department of Internal Affairs and problem gambling support providers.

Our operations are diverse and reflect the complexity, size and scope of the organisation and the industry, as well as our reliance on innovative technology to maximise performance and efficiency.

OUR PURPOSE

The NZ Racing Board's primary purpose is to promote the racing industry and maximise the proceeds of wagering for the benefit of the racing industry, comprising the thoroughbred, harness and greyhound Racing Codes. Each Code is governed by the Rules of Racing, administered respectively by NZ Thoroughbred Racing, Harness Racing NZ and the Greyhound Racing NZ.

The NZ Racing Board has statutory authority under the auspices of the Racing Act 2003 (Appendix 1), under which we perform a broad range of functions.

Under the Racing Act and the Gambling Act 2003, the betting operation of the NZ Racing Board – known as the TAB – can only accept bets on racing and sports events. It may also operate gaming machines under Gambling Act.

The Gambling Act outlines strict harm prevention and minimisation obligations and allocates responsibility for funding problem gambling services and the development of a strategic plan for the Ministry of Health with regards to preventing and minimising gambling harm.

The NZ Racing Board also consults with the Department of Internal Affairs on harm minimisation, particularly in respect of changes to existing products and development of new products.

The NZ Racing Board's products are restricted to people aged 18 and over.

GOVERNANCE AND ORGANISATION

As stipulated in Section 11 of the Racing Act, the Board of the NZ Racing Board is composed of:

- An independent Chairperson;
- Three members appointed on the nomination of each Racing Code; and
- Three members recommended by a nomination advisory panel consisting of the Minister for Racing, the independent Chairperson, and the Chairpersons of the three Racing Codes.

¹ Size and Scope of the New Zealand Racing Industry (2010), IER Pty Ltd.



The Board has all the powers necessary for managing, and for directing or supervising the management of, the business and affairs of the NZ Racing Board, provided that direction is aligned to:

- The objectives and functions set down in the Racing Act;
- Any other relevant legislation (for example, the Gambling Act 2003); and
- This Statement of Intent.

The seven-member board meets regularly. The Chief Executive of the NZ Racing Board also attends all meetings.

Year-to-date performance is measured in consultation and reporting from business units within the NZ Racing Board. The Board monitors overall performance and any variations to approved operating and capital expenditure budgets.

The Board has constituted sub-committees, with each considering relevant issues under separate written charters.

Day-to-day operations are the responsibility of the Chief Executive.

The NZ Racing Board's corporate and operational head office is located in Petone, Wellington, with regional offices and contracting services throughout New Zealand. Backup computer installations are maintained in Auckland for risk management and security purposes.



KEY RELATIONSHIPS

Racing Codes

The Racing Codes comprise NZ Thoroughbred Racing, Harness Racing NZ and Greyhound Racing NZ. Each body is constituted as an incorporated society. The Racing Codes and the NZ Racing Board consult on a regular basis regarding racing industry operations, and to maximise benefits for the national racing industry and its associated stakeholders. Operational issues are addressed by respective management, while Chief Executives and Chairpersons formally meet on a regular basis. The NZ Racing Board is required to approve the Business Plan of each Racing Code.

Combined Racing Industry Group (CRIG)

The Combined Racing Industry Group comprises the Chief Executives and Chairpersons of

the Boards of the NZ Racing Board, NZ Thoroughbred Racing, Harness Racing NZ and Greyhound Racing NZ. CRIG meets regularly to establish and clarify spheres of responsibility and accountability on issues relating to the racing industry. This is a forum whereby stakeholders are able to ensure that respective Code, Club and NZ Racing Board activities are aligned to promote and develop the racing and wagering industry.

The NZ Racing Board recognises the importance of developing and implementing a cohesive, strategic and industry-wide vision, with clear targets and measures by which performance and achievements can be judged. This includes ensuring consistency and a "whole-of-industry" approach in the Statements of Intent and/or Business Plans of the NZ Racing Board and the Codes to develop a more successful and sustainable racing industry.

In order to achieve this, CRIG seeks to facilitate shared and open understanding of industry matters and an integrated, strategic approach to activity - notably the eight key industry opportunities jointly conceived and outlined on pages 9-10.

Stakeholders agree that greater industry benefit will be derived from a formalisation of CRIG's structure, management and governance. This process is currently under consideration.

Judicial Control Authority and Racing Integrity Unit

The Judicial Control Authority was confirmed by statute under the Act in 2003. The Racing Integrity Unit Ltd was established in 2010 and came into operation on 1 February 2011. These bodies are respectively the "Judiciary" and the "Police" for the racing industry and are fully empowered to enforce and adjudicate upon the Rules of Racing of each Code. The NZ Racing Board provides approval of the budget and business plan of the Racing Integrity Unit, and the budget of the Judicial Control Authority.

Recognised racing industry organisations

In addition to the Racing Codes, the NZ Racing Board also consults with other recognised racing industry organisations: NZ Thoroughbred Racehorse Owners Federation, NZ Thoroughbred Breeders Association, NZ Trainers Association, NZ Jockeys Association, NZ Standardbred Breeders Association, NZ Trotting Owners Association, NZ Harness Racing Trainers Association and every Racing Club registered with a respective Racing Code.



Central Government

Under the Racing Act 2003, the NZ Racing Board operates with a degree of independence, though is accountable to the Government via the Minister for Racing and Minister of Internal Affairs. Before the commencement of the racing year the NZ Racing Board submits a Statement of Intent relating to that year and the two subsequent years.

The NZ Racing Board complies with the Racing Act 2003 and the Gambling Act 2003.

This Statement of Intent sets out the NZ Racing Board's plans for the next three years, with performance measures and financial targets.

The NZ Racing Board's Business Plan, Statement of Intent, Annual Report and audited accounts are tabled in Parliament as required by the Act and NZ Racing Board representatives may be called upon to appear before relevant parliamentary committees to answer questions about performance.

In addition to annual reporting, the NZ Racing Board also produces a half-yearly financial report, along with quarterly activity and performance updates for the Minister for Racing.

Sports governing bodies

The NZ Racing Board also consults with the various national sports bodies which derive income from bets placed via the TAB on fixtures within their sporting code.

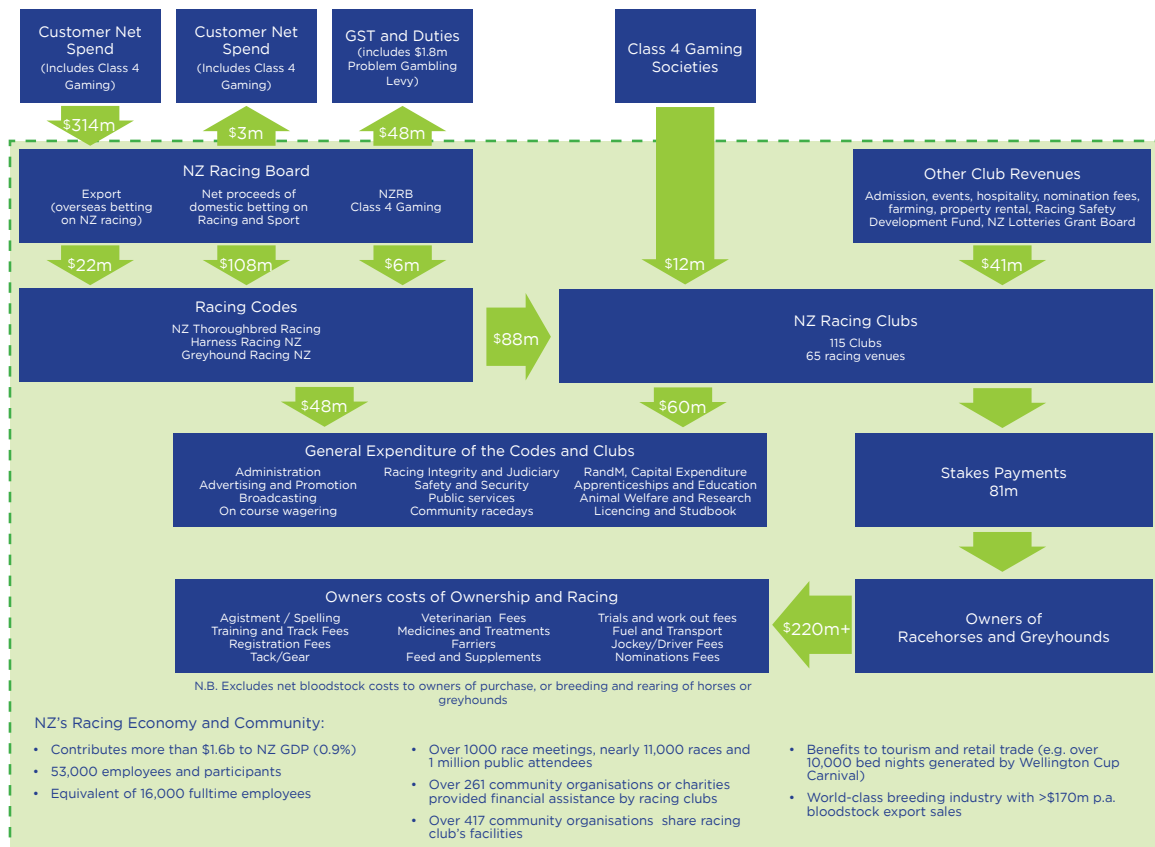
SUPPORTING THE NEW ZEALAND RACING INDUSTRY

Under the Racing Act 2003, the NZ Racing Board administers all racing and sports wagering in New Zealand, with the objectives of:

- Promoting the racing industry
- Facilitating and promoting racing betting and sports betting
- Maximising its profits for the long-term benefit of New Zealand racing

The following diagram depicts the flow of funds and the various leakage points on the journey from customer spend to financial returns to owners.

Overview of New Zealand Racing:



Note: Figures are indicative with basis on: 2012 Season NZRB/Code forecasts; 2011 Season Club performance; and 2010 Industry Size and Scope study, and assumed nil movements in reserves.

There is significant liaison, consultation and collaboration between the NZ Racing Board and the Racing Codes. This takes place between the respective Chairpersons and/or management teams.

Examples include:

- Agreement to the Code funding distribution model
- The establishment of the racing calendar for each season
- Funding allocation to industry expenditure
- Ratification by NZ Racing Board of proposed amendments to the Rules of Racing
- Approval of Code business plans
- Monitoring of the financial wellbeing of Clubs
- Collaboration on key industry issues, challenges and opportunities

“Industry expenditure” comprises the various functions that the NZ Racing Board leads or funds on behalf of the Racing Codes which contribute to the wider good of the industry and its participants. The level of funding to these functions is agreed in consultation with the Racing Codes. Industry expenditure supports:

- The integrity of racing, through funding provided to the Judicial Control Authority, Racing Integrity Unit Ltd, and the laboratory testing of human or animal blood or urine samples
- Research that promotes animal welfare within the racing and breeding industry
- Liaison with Ministry for Primary Industries and other equine interests via the NZ Equine Health Association with the aim of eradicating or avoiding the incursion of equine diseases such as Equine Herpes Virus and Equine Influenza
- Provision of training to racing and breeding participants under the framework provided by the Industry Training Act 1992 via AgITO
- Economic research into areas of critical overall importance to the racing industry
- Promotion and management of franchised raceday events such as Christmas at the Races and Interislander Summer Festival, along with other promotional support offered to Racing Clubs
- Additional promotional or public relations activity and initiatives agreed by the industry to promote and enhance perceptions of racing

KEY FINANCIAL FORECASTS

	2012/13	2013/14	2014/15
Wagering turnover	\$1.690 billion	\$1.781 billion	\$1.798 billion
Gaming net proceeds	\$7.5 million	\$7.5 million	\$7.5 million
Wagering profit	\$134 million	\$135 million	\$137 million

Note: Gaming net proceeds are applied for racing and sports authorised purposes; wagering profit is applied to racing industry funding and reserves.

Full financial information can be found on pages 27-34.



INDUSTRY FINANCES

The main sources of income for the racing industry are:

- Profit from customer betting via the TAB
- Event customers attending race meetings; business/corporate sponsorship of races
- Net revenue from gaming machines in TAB retail outlets, plus grants from other Class 4 trusts
- Net revenue from offshore punters betting with contributing betting operators
- Non-raceday income from venues

Managing the racing industry's administrative and infrastructure costs to optimise the conversion of that income to returns to the owners of racing animals is the challenge for all stakeholders in the domestic racing industry.

INDUSTRY COLLABORATION AND CO-OPERATION

In early 2012, management of NZ Racing Board and the three Racing Codes met to collaboratively determine the key challenges that face the racing industry. Generally, these are:

- Enhancing the relevance of racing to the general public
- Increasing attendances/customer engagement
- Improving public perceptions of racing
- Increasing participation in racing

These challenges are clearly inter-related. In addition, the industry recognises a need to protect the industry's income streams and the livelihoods of industry participants.

As a result, the following eight industry opportunities were jointly conceived:

1. Customer engagement

Make racing relevant to modern expectations of entertainment and immediacy. In so doing, we seek to increase the breadth and depth of involvement in the sport of racing, whether through wagering or ownership.

New Zealanders may come to racing in a variety of roles. Most often, people are first exposed to racing at a racing carnival or community raceday (leisure market), with some progressing to a more regular or deeper association with the sport.

The challenge identified is to not only attract more attendances at race meetings but to demystify racing and remove actual or perceived barriers, to better enable a long-term engagement in racing for the general public and for current enthusiasts.

2. Media

We aim to improve the relevance and coverage of racing in the mainstream media. This will involve:

- Review of industry publications
- Review of racing form provision through media platforms
- Drive to increase relevance of racing in the mainstream media
- Development of social media strategies to attract a new audience
- Developing closer and more productive relationships with mainstream media organisations and key personnel

3. Online competitiveness

NZ Racing Board and the Codes seek to provide an online presence which is immediate, relevant and informative. We aim to:

- Match or better the online offering of offshore competitors
- Develop a structured and consistent approach to the digital presence of the NZ Racing Board and Racing Codes

4. Intellectual property

The industry will optimise the commercial benefits to racing on a global and ongoing basis.

- Protect and enhance vision and data rights of New Zealand racing
- Grow additional commercial opportunities

5. Government relations

The NZ Racing Board and the Codes have formed a co-operative and collaborative approach, with which we seek to:

- Address and mitigate the economic losses and risks to growth associated with New Zealanders wagering with offshore entities
- Identify and address animal welfare issues
- Ensure recognition of the size, scope and contribution of the racing industry to the New Zealand economy and culture



6. On-course services

The NZ Racing Board is working with the Codes to provide on-course wagering services that are more cost-effective and suitable to the class of race meeting and more relevant to modern expectations. We aim to bring on-course wagering hardware and services and data display to a standard equivalent to the retail network.

7. Club infrastructure and sustainability

A vibrant and successful racing industry relies on Clubs and their valued members and volunteers to provide venues for training and racing of horses and greyhounds. While it is appropriate that the quality of facilities and services provided to the attending public can and will vary, Clubs must ensure a safe and pleasant experience for all patrons. The NZ Racing Board will assist the Codes where appropriate to ensure that minimum standards can be met on a sustainable and economic basis. Club sustainability also relies upon Club involvement in and contribution to local or regional communities, and in leveraging Club assets for additional non-raceday incomes. Strategies and initiatives to assist in these regards will be formulated and considered.

8. Broadcasting

Review content delivery via Trackside and TABTV, along with new delivery media such as streaming or on-demand.

Oversight and milestones

The necessary collaboration required to address these challenges ensures that the NZ Racing Board and Codes are jointly aware of emerging issues; with the working groups responsible for proposing and undertaking initiatives which address these evolving challenges.

Oversight is via reporting to the Combined Industry Racing Group (CRIG) and with regular reporting back to respective Boards.

OPERATING ENVIRONMENT



NEW ZEALAND WAGERING AND GAMING INDUSTRY

The NZ Racing Board operates in a highly regulated environment subject to strict legislative controls and high levels of scrutiny.

The nature of the racing industry means stakeholder relationships are complex. Concerted and ongoing efforts are required to maintain good working relationships with key industry stakeholders, with an enhanced focus on collaboration a key driver for the NZ Racing Board.

The strict regulatory environment means the NZ Racing Board operates to the highest levels of transparency and integrity in all its processes. We have obligations under the Official Information Act.



COMPETITION

The NZ Racing Board faces direct and intensifying competition for gambling revenue from lotteries, casinos and non-casino gaming machines in New Zealand pubs and clubs.

An additional and growing level of competition is also coming from overseas, with punters able to place bets with overseas gambling organisations, particularly via the Internet, from which the New Zealand racing industry and the Government derives no benefit.

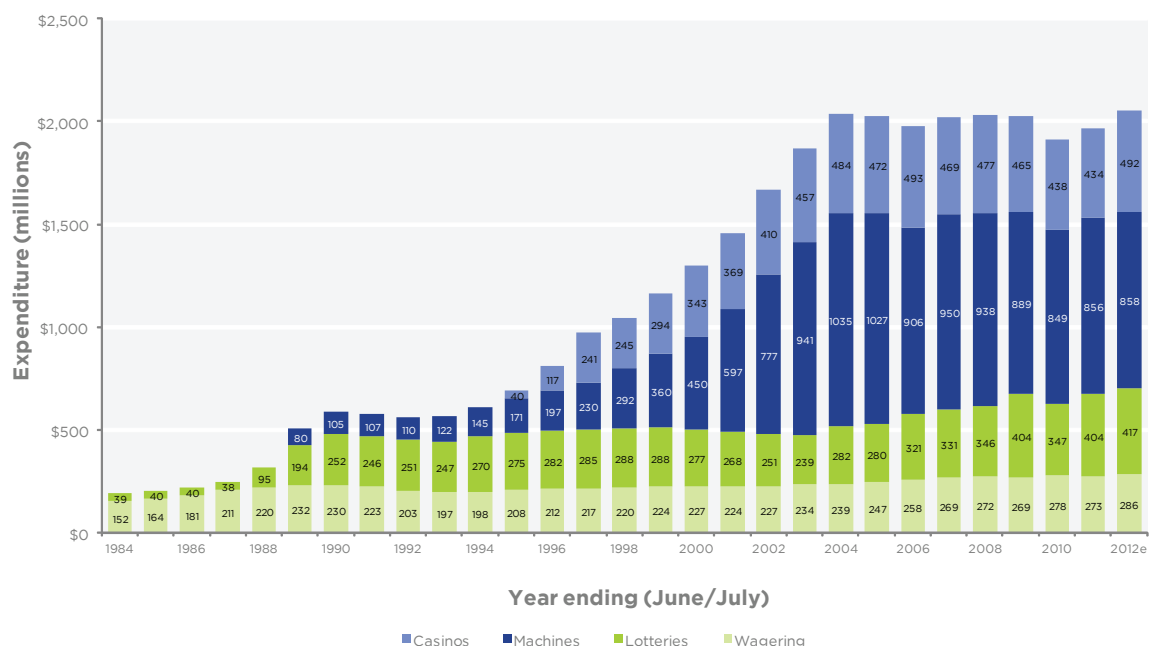
In line with trends noted globally, domestic wagering on racing in New Zealand has generally remained static.

The NZ Racing Board's share of the national gambling market decreased slightly in 2011, to 13.9% from 14.6% in 2010. Competitors such as NZ Lotteries continue to experience growth, courtesy of an increasing retail footprint, new games and channels and larger jackpot runs. Spending on gaming machines was also marginally up in 2011.

The total onshore gambling spend in New Zealand has not significantly grown since 2004 - largely due to the impact of the introduction of the Gambling Act 2003. At around \$2 billion, gambling as a percentage of GDP has actually declined from a peak of 1.44% in 2004 to 1% in 2011.

NZ Gambling Market:

Annual Expenditure





INTERNATIONAL ENVIRONMENT

The NZ Racing Board has delivered benefits to the New Zealand racing industry through a concerted internationalisation programme.

Via partnerships with overseas broadcasting and racing bodies, New Zealand racing is now sold to many territories overseas, including Australia, the United Kingdom, Europe, Asia and North America. As well as generating important revenue, the broadcast of New Zealand racing overseas also serves to help showcase the industry on the international stage.

In addition, the offering of racing product to New Zealand customers has grown, with imported racing from North America, Australia, Africa, Europe and Asia.



INTERNET GAMBLING AND OFFSHORE LEAKAGE

The NZ Racing Board is competing with overseas betting operators to win discretionary spending of New Zealand customers. It is illegal for these offshore operators to advertise using domestic media but they have been able to circumvent current legislation through extensive use of offshore-based websites for attracting and communicating with New Zealand customers.

Many of these offshore operators provide gambling opportunities and products that are illegal for the TAB to provide online to domestic customers.

In addition to this contradiction of opportunity, offshore operators can more effectively compete at a lower cost as they do not pay New Zealand duty, GST or problem gambling levies. In the case of New Zealand racing and sports, these operators do not make any financial contribution to those “putting on the show”, the organisations that provide the product.

Overseas operators provide a wide range of gambling options, including sports and race betting, poker, bingo and casino and skill games. Some allow credit betting on products and offer other inducements. Other “exotic” options, such as betting on general election outcomes or winners of movie awards, are routinely available overseas providers, though the ability to compete in this market is denied to the NZ Racing Board. These novelties are often used as marketing/media headlines for customer recruitment.

A major concern is that overseas operators are not bound by the same stringent rules and regulations to which the NZ Racing Board is held. There are no social controls, monitoring or recourse for the customer, with high potential for harm through problem gambling.

While it is difficult to quantify the exact loss in dollar terms to the NZ Racing Board and its stakeholders as a result of New Zealanders betting with overseas operators, conservative estimates have put the net wagering loss to the NZ Racing Board at \$50 million a year – money that could be returned to New Zealand racing, sport and the Government through tax. At least twice that amount is estimated to also be lost overseas to other avenues of non-wagering gambling, such as online casinos.

The NZ Racing Board believes extensive research into this issue is a matter of highest priority.

The seriousness of this issue has already been strongly raised at state and federal level in Australia, with efforts to highlight the cost and threat posed by offshore operators and unregulated wagering.

The NZ Racing Board will continue to examine ways to address offshore leakage issues alongside Government and the racing Codes and is pleased the Minister for Racing is taking a close watching brief on the activities of the Australian Government as it deals with these critical problems.

The NZ Racing Board will seek to work closely with the Department of Internal Affairs to accurately determine and define the size and scope of this issue, its impact on racing and sporting bodies and possible methods of resolution and/or mitigation.



HARM MINIMISATION

One of the NZ Racing Board's statutory functions is to ensure robust measures and procedures are in place to prevent and minimise harm from gambling.

For most customers, wagering on racing and sports is a fun, safe and exciting pastime, with revenues generated by the NZ Racing Board benefitting thousands of New Zealanders who derive their livelihoods from racing and sport.

However, while accurate figures are difficult to establish, the NZ Racing Board acknowledges that some people are at risk from the impact of problem gambling.

The NZ Racing Board is committed to the highest and most robust standards in addressing issues around problem gambling, with industry-leading programmes set up alongside relationships with the Ministry of Health, Department of Internal Affairs and problem gambling support providers.

We believe statutory requirements with regards to implementing problem gambling identification and minimisation procedures are set as minimum criteria only and seek to develop policies and implement procedures that go beyond these requirements.

The NZ Racing Board supports programmes that help protect people most at risk through an annual contribution to the Problem Gambling Levy (2011/12: \$1.68m).

In conjunction with problem gambling advocacy groups, we continue to develop, improve and implement policies and procedures to minimise harm caused by problem gambling.

We also work closely with the Department of Internal Affairs and the Ministry of Health to ensure our procedures and policies are as robust as possible.

NZ Racing Board/TAB staff members receive substantial training in order to assist them to identify problem gambling behaviour and provide them with appropriate procedures to mitigate the effects.

PERCEPTIONS OF RACING AND WAGERING

Since 2010 the Nielsen Company has conducted annual research into the public perceptions of racing and wagering.

The 2012 report² found that while the New Zealand racing and wagering industry is well regarded by those actively engaged, there are continuing challenges in enhancing overall perceptions of racing and wagering. There are opportunities to influence a sizeable group of people who have neutral perceptions of racing and wagering.

Perceptions of the NZ Racing Board, TAB, the racing industry and betting on racing and sport are strongly correlated – positive or negative perceptions of one area influences perceptions of other areas.

PERCEPTIONS OF RACING

Attending a race meeting is accepted by the community as an exciting and engaging form of entertainment.

The Nielsen report confirms that those who regularly attend race meetings, wager on racing and those with a personal or professional involvement in racing are far more likely to have positive perceptions of the industry.

For this reason, ensuring more people are involved or engaged in racing is seen by the NZ Racing Board as a driver to enhance overall perceptions. This aspect is a key driver underpinning many of the collaborative industry initiatives currently being developed.

For example, enhancing the customer experience at race meetings is seen as critical, with

recognition that infrastructure and services must meet customer expectations in what is a competitive entertainment environment. Clubs will be assisted in ensuring their offering is in line with these expectations.

PERCEPTIONS OF WAGERING

The 2012 Nielsen report shows overall public perceptions of racing and sports betting remain steady, requiring ongoing and sustained efforts by industry stakeholders.

Betting on major events such as the Melbourne Cup or Rugby World Cup is viewed as acceptable, though perceptions of problem gambling continue to impact the wider industry.

The NZ Racing Board's commitment to addressing potential harm caused by problem gambling is critical to improving overall perceptions, as is building recognition that betting is acceptable, fun, challenging and entertaining.

RACING INTEGRITY UNIT

The launch of the Racing Integrity Unit (RIU) in 2010 and its effectiveness in improving the conduct and expectations of participants in the racing industry is one measure aimed at enhancing long-term perceptions.

It is fundamental that owners of competing animals, and customers betting on races, have absolute confidence that rules are diligently applied, policed and enforced.

² Perceptions of Racing and Wagering in New Zealand, Nielsen, May 2012

OPERATING OUTLOOK



CUSTOMER SEGMENTATION

The NZ Racing Board has identified four key TAB customer segments:

- Experts: a competitive and price-sensitive segment that seeks quality information around wagering, effective and efficient service, new bet types and the challenge provided by wagering
- Traditionals: seek familiar products and surroundings, efficient transactions and an easy and reliable wagering routine
- Moderns: seek accessibility via convenient digital channels
- Emergings: event-driven, seek simplicity of channel use and reassurance around wagering safety

The challenge for the TAB business is to manage changing customer demand in a cost-effective manner that keeps pace with change but does not disadvantage the significant and valuable contributions of Traditional and Expert racing customers.

There are costs associated with the trend toward demand for Fixed Odds Betting and from land-based retail outlets to digital channels and self-service facilities.



OPERATING ENVIRONMENT

The NZ Racing Board is operating in constrained economic conditions and in a market competing for discretionary spending. In addition, offshore wagering operators have significantly stepped up efforts to gain New Zealand customers.

Most critically, the environment in which the NZ Racing Board and its TAB operation operates continues to evolve quickly.

The following series of graphs illustrate key trends impacting the business.

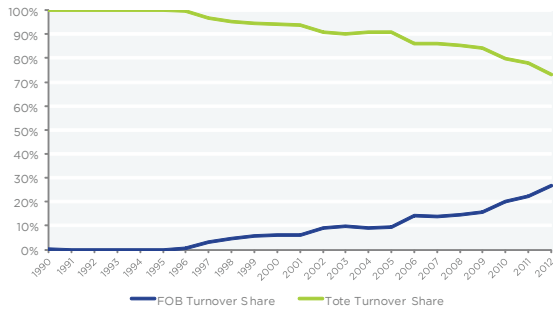
Notably, these wider trends comprise:

- Declining demand for Tote products, rising demand for Fixed Odds products:
 - o Significantly increased offering of Fixed Odds products to meet demand
 - o Unlike Tote margins, there can be significant variation in Fixed Odds margins based on racing/sports results
- Decline in racing turnover, increase in sports turnover:
 - o Racing still comprises 85% of total turnover but sports turnover (Fixed Odds) is increasing
- Major sports events, such as Rugby World Cup, are attractive to customers and are effective in new customer acquisition
- Rapid change in channel usage:
 - o Use of digital channels (Internet, mobile) continues to accelerate in relation to more costly legacy telephony channels, necessitating “right-sizing” of resources
 - o Turnover share via retail agencies/branches now less than share via PubTABs and ClubTABs

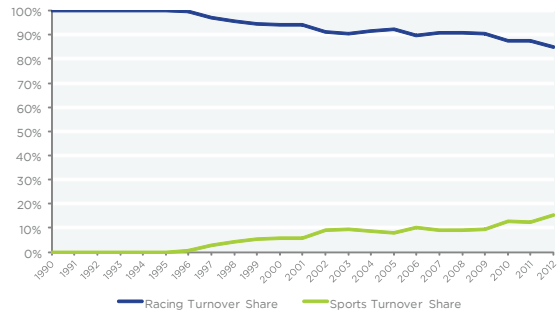


Key Trends:

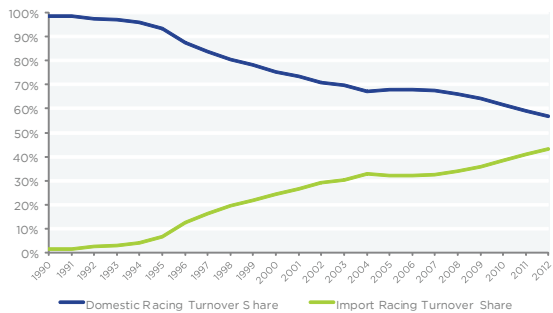
TOTE v FOB



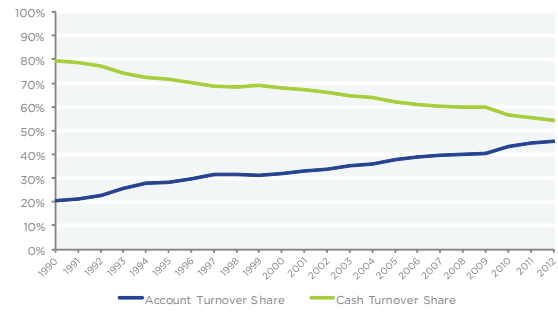
RACING v SPORT



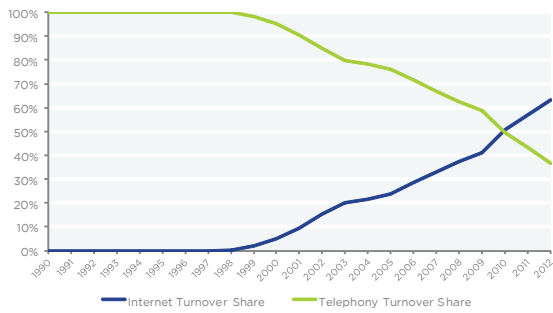
DOMESTIC v IMPORT



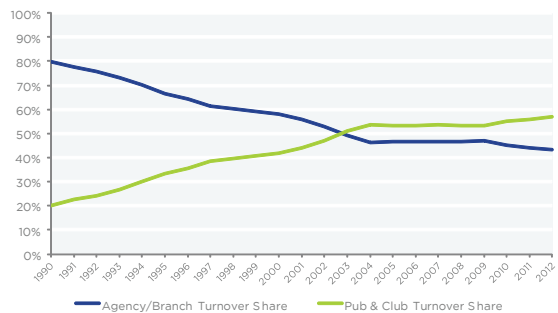
CASH v ACCOUNT



INTERNET v TELEPHONY



AGENCIES v PUBS & CLUBS





MARKET REACH AND REVENUE GENERATION

Product choice for customers will continue to be enhanced through betting on additional sports or international racing events. We will be introducing new Totalisator and Fixed Odds Betting products and looking to better manage the relationships we have with high-value customers. The objectives are to:

- Increase revenue and grow margins
- Increase frequency of customer engagementProvide the full product range that is currently offered by our competitors, including investigation of potential for introduction of a product capable of reaching “life-changing” value
- Combat customer leakage and win back customers
- Leverage both current and future technology and use it as a platform to make enhancements
- Increase overseas platforms and reach into the lucrative Australian and Asian markets



DOMESTIC SUPPLY CHAIN

A significant factor impacting the NZ Racing Board’s wagering turnover is the number of races conducted and the number of horses or greyhounds per race. This has been identified by industry stakeholders as a key risk with potential to have a significant impact on the long-term sustainability of the domestic racing industry.

Falling numbers of registered broodmares and mares served in both equine Codes re-emphasises the importance of industry support of research and participant training as measures that assist in improving the number of starts per horse. In consultation with the equine Codes, the NZ Racing Board intends to continue developing and supporting initiatives to increase the overall number of racing animals and the number of race starts.

KEY INTENTIONS AND INITIATIVES

The key intentions and initiatives of the NZ Racing Board and TAB can be broadly separated and defined within four distinct categories – wagering products, channels, customer service and operating costs. In addition to these are the eight industry initiatives currently being developed in collaboration with the Racing Codes (see pages 9-10).

WAGERING PRODUCTS

Fixed Odds Betting Automation

The introduction of an array of automated Fixed Odds Betting (FOB) wagering tools will revolutionise the way that we offer sports betting and enhance the customer experience. The breadth (the range of sport events on which we offer wagering) and depth (the number of betting options available on these events) of available In-Play and Pre-Match sport betting will be increased. We will leverage cutting-edge technology to automate manual processes, enable non-core books to be managed remotely and free up our bookmaking team to focus exclusively on value-adding activities. These tools will allow us to effectively compete with offshore betting websites and provide the product range demanded by our customers. They will help us to fully capture the potential sport streaming activities and lead us toward a 24/7 operating environment.

2012/13
Introduced during Q4 2012/13 and increasing turnover by \$10m; move toward 24/7 sports betting operation initiated
2013/14
First complete year of operation. Incremental turnover of \$40m. Business now operates sports betting 24/7
2014/15
Operation fully bedded in. Review and refine. Incremental turnover of \$42m

New Tote Products

We have commenced the development of Place6, a brand new Tote bet of a genre that is extremely popular in other jurisdictions. It will be introduced during the first half of 2012/13 and will help address the declining average yields. In order to win, a customer must select a placegetter in each of six

aces. Place6 will be offered on every domestic meeting and across all three Racing Codes. In subsequent years, we expect to roll out at least one new Tote bet type. A detailed Tote product pipeline, along with robust financial expectations will be developed during the 2012/13 period.

2012/13
<ul style="list-style-type: none"> Place6 introduced during Q2 2012/13 and increasing turnover by \$4.56m Investigation into development of products with potential to jackpot to large, “life-changing” amounts – for example, a Triple Trio or similar product
2013/14
First complete year with Place6 Incremental Place 6 turnover of \$11m. Deliver additional Tote product to market (Triple Trio and Trio, Sports Pool Enhancements) – exact timings and financial benefits to be determined
2014/15
Place6 fully bedded in. Review and refine. Incremental turnover of \$42m. Deliver additional Tote product to market (Exacta) – exact timings and financial benefits to be determined

Improvements will be made to our Sports Pool that will stimulate the performance of this bet type by increasing liquidity. This will be achieved by commingling this product internationally and allowing percentage betting.

Live-streaming

In May 2012 our live-streaming sports service, Watch&Bet, was launched via the tab.co.nz website.

Watch&Bet currently provides our customers with the opportunity to view and wager on up to 8500 live sporting events during the year.

We will add a live scoreboard to enhance the service and expand our sports form offering. The full Watch&Bet service potential will only be unlocked once the In-Play tools are embedded in Q4 2012/13.

During 2012/13 we also plan to launch a live-streaming service for racing. This will provide our customers with a similar experience to the existing sports service and will endeavour to combine the excitement of live racing with the wagering opportunity.



Allied to this is a drive to expand the provision and functionality of the service on modern digital devices.

2012/13
Sport streaming to deliver incremental turnover of \$8m and racing streaming to increase turnover by \$2.9m
2013/14
First complete year of racing streaming. Incremental sport turnover of \$12m and racing turnover of \$3.1m expected
2014/15
Operation fully bedded in. Review and refine. Incremental sport turnover of \$14.9m and racing turnover of \$3.4m expected

CHANNELS

Wagering channels

To meet the customer transition in wagering channels the mix of investment and resource commitment is becoming increasingly focused on the account customer using devices away from our store counter.

- **Internet:** The Internet channel is experiencing rapid and continuing growth, with online bets now accounting for nearly 30% of all bets taken. Investment will be made in further improvements in functionality in keeping with our focus on customer-driven initiatives. Examples include:
 - **Faster odds updates:** Odds to be updated virtually instantaneously – critical in the live betting environment and a driver in competitiveness
 - **Sports options for an event all on one page:** Betting options on a single event located on a single page
 - **Online Bet Basket:** Bets to be placed in an online basket and placed in a single transaction, rather than separate transactions for each individual bet
 - **News&Tips:** Up-to-date and exclusive sports and race betting information continues to drive increased wagering activity
- **Mobile:** The mobile channel continues to offer a significant opportunity for growth given the rapidly growing market share of smartphones. Development of the m.tab.co.nz platform is continuing.
- **Agencies/Branches:** Ongoing optimisation strategies continue with the consolidation of NZ Racing Board venues to ensure we are located where the customer is and in the format desired, allowing for greater market penetration. Growth in the share of company-operated Branches has seen a focus on maximising operating efficiencies. Self-service terminal (SST) rollout to Agencies/Branches starts in late July 2012 and will see all sites receive at least one terminal.
- **Hosted venues:** New greenfield developments are achieving hosted venue turnover growth. In 2011/12 46 new greenfield outlets were opened, while 97% of PubTABs now have a form of self-service offering. The share of self-service activity in hosted venues has grown significantly, with 32% of PubTAB transactions now done through self-service. The first rollout of the new Retail Display Screen (RDS) technology (as Teletext replacement) saw the technology installed in 100 PubTABs, while 34 ClubTABs have also recently received the new information display.
- **Phonebet:** Phonebet is declining in popularity but still remains an important channel for Traditional and Expert customers. An initial right-sizing of Phonebet personnel levels has been completed, with further efficiencies to be investigated as conditions dictate.

Retail

The NZ Racing Board will undertake a review of the provision of its retail offering and the provision of services and channels within the network.

2012/13
<ul style="list-style-type: none"> • Consolidation of Agency/Branch network • Continuing review of Phonebet service • Targeted technology provision and customer service efficiencies • Retail staff customer service/sales training and development
2013/14
<ul style="list-style-type: none"> • Continuing rollout of RDS into network, with development of an information kiosk concept
2014/15
<ul style="list-style-type: none"> • Focus on integrating account spend into retail environment in recognition of multi-channel customer preferences

Broadcasting

The NZ Racing Board operates two fully digital television channels - Trackside and TAB TV. The channels broadcast more than 50,000 domestic and international races each season. Further, New Zealand racing is broadcast internationally via broadcast partner Sky Racing.

The capture, presentation and broadcast of current programme content on both the NZ Racing Board's channels are in standard-definition format. The current New Zealand broadcast television landscape is moving progressively to high-definition format and it envisaged this will accelerate as content broadcast in high-definition and domestic demand and take up grows.

The switch to a fully digital service took place on August 1, 2011 - well ahead of the Government's initiative to complete the switch-off of the national analogue service by December 2013.

In November 2012 the Trackside television service celebrates 20 years of operation.

Key areas of the NZ Racing Board's broadcast strategy focus on a review of the broadcast channel mix and the live streaming of racing to optimise wagering earnings.

An additional aspect of the strategy during the next three-to-five years will focus on the migration of its television operation to high-definition technology.

2012/13
<ul style="list-style-type: none"> • Planning for upgrade of presentation studios • Review of two-channel broadcasting service
2013/14
<ul style="list-style-type: none"> • Upgrade of fibre connectivity at racetracks and current satellite-linking technology
2014/15
<ul style="list-style-type: none"> • Replacement of NZ Racing Board's six outside broadcast units

Pending decisions around the future location of the NZ Racing Board's central broadcasting operation will likely impact project timeframes.

TVNZ has sold its Avalon studios and the NZ Racing Board's lease of facilities at Avalon concludes in July 2013. In preparation for that decision point the business will consider a full range of options of production locations and/or outsourcing of technical issues.

Options are currently being considered.

CUSTOMER SERVICE

DREAM initiative, Customer Relationship Management

Our DREAM (discounts, refunds and matches) initiative will increase the service levels that we offer to our high-value customers (HVCs), particularly those wagering with overseas agencies. We will introduce a dedicated Customer Relationship Management (CRM) system and create an improved interface that will significantly improve the betting experience and capability of our most important customers.

We expect to introduce the new CRM system during the first half of 2012/13 that will focus primarily on our high-value customers and enable us to better service their needs and fulfil their expectations. Following the two initial phases of work, it is expected that other parts of the business will be able to leverage this platform and allow us to better service a wider range of external and internal customers.

We will also review and refine tactics to better engage with customers based in Australia to grow betting on New Zealand racing.

2012/13
CRM system introduced; increase of \$7.8m in HVC turnover
2013/14
First full year of CRM system operation; increase of \$8.1m in HVC turnover
2014/15
System fully bedded in, review and refinements complete; incremental HVC turnover of \$8.4m

 **OPERATING COSTS**

The financial forecast presented in this document indicates a large proportion of a budgeted increase in gross betting margin will be offset by an increase in operating costs. This is an area that will be subject to immediate review by the new Board.

In particular, this review will focus on compressible costs, core versus discretionary activities and sourcing of services, with an overall goal of increasing profit available for distribution.

PEOPLE AND CULTURE

Every day our people connect with customers and contribute to the community. Our focus is on achieving a new level of performance, reaching more New Zealanders than ever before through increasing their interest in the experience of betting on racing and sports.

Key to this is developing a sharper sales culture within the NZ Racing Board and the wider industry. The focus is on transforming the way we do things, creating greater efficiency and developing solutions that enable us to perform better and maximise our contribution to the racing industry.

Our success during the next three years depends on the performance of our people. With that comes the need to have excellent leaders and a strong culture in which people are agile, resilient and focused on delivering results. To do this we need to be able to attract, retain and develop an energised and engaged workforce which is committed to the NZ Racing Board's success. Our people and the culture of the organisation are our most intangible assets, yet provide a significant competitive advantage.

Our People & Culture group is building and developing initiatives that will support the NZ Racing Board's drive for performance. It is based on the firm belief that achieving a high level of capability and performance, leadership excellence, and a strong culture and operational effectiveness are critical success factors for the organisation to achieve its goals.

As we move into a new phase at the NZ Racing Board, our people are well placed to deliver an improved performance, grow profits and achieve the goal of ensuring the NZ Racing Board is regarded as one of the best places to work in New Zealand. Through the initiatives outlined in the People Plan, People & Culture can deliver outcomes that will directly contribute to the NZ Racing Board's performance.

The People Plan reflects our contribution to achieving our strategy by delivery of the following outcomes:

- Our people experience great leadership
- The capability and performance of our people is improved
- Our people are part of a learning organisation
- Our people have the right skills and experience
- Our people are part of a passionate, proud and engaged organisation

This plan outlines our key programmes of work which support our key strategic themes – Leadership, Capability, Culture, Performance and Infrastructure.

Key programmes of work during the next 12 months are focused on meeting business needs as well as usual demands alongside:

- Enabling infrastructure to enhance capability to engage with customers and stakeholders
- Building people capability and performance
- Growing engagement
- Strengthening leadership and management

The plan sets out Human Resources' programmes of work, core business activities and initiatives for the next three years. The plan will be reviewed six-monthly in response to emerging people challenges and evolving business needs.

Attrition

Attracting, retaining and developing staff is a key driver. An attrition rate of 6%-12% is considered best practice in New Zealand. Attrition rate targets:

2012/13
18%
2013/14
14%
2014/15
11%

Retention of new personnel

Ensuring higher numbers of personnel new to the organisation remain beyond one year in critical. We seek to reduce the percentage of new recruits leaving within the first year of service by improving induction processes, recruitment practices and conditions, as well as offering competitive market remuneration. Retention rate targets:

2012/13
29%
2013/14
20%
2014/15
12%



Succession planning

A robust succession planning programme and talent identification process will be developed which ensures the NZ Racing Board has excellence and capability at all levels of the organisation. This programme will also ensure current talent is nurtured and developed with clear career progression opportunities.

Culture and engagement

A positive and engaging workplace culture is critical to the success of the NZ Racing Board. In September 2012 a business-wide Culture Survey will be conducted to establish an engagement benchmark to help shape future planning.

INFORMATION AND COMMUNICATION TECHNOLOGY

The NZ Racing Board's ICT strategic plan builds on the existing capability of core information systems, architecture and infrastructure.

To support the organisation's customer service objectives, a co-ordinated approach is in place to ensure ICT systems and infrastructure can support planned business objectives and initiatives, as well as adapt to emerging technology and information systems where applicable.

The ICT strategy will lead, deliver and manage ICT requirements and operations, with emphasis on developing and implementing business solutions that are innovative, compliant, reliable and in line with business objectives.

WAGERING SYSTEM

For the past three years the NZ Racing Board has been working to replace the Jetbet wagering platform with the Typhoon system. This is a complex task involving the wagering engine, which delivers betting opportunities and products to customers.

Significant resources were committed to the implementation and integration of the Typhoon wagering system.

Attempts to integrate a customised version based on the Typhoon product - named Helix - were unsuccessful and the project halted for review in July 2011.

The review considered whether the Typhoon product remained the best choice available, as well as setting out the precise development/integration requirements of replacing Jetbet.

Ultimately, this review concluded that the Typhoon product would not deliver the outcomes expected and that further work would cease.

As a result, the NZ Racing Board is focusing on the stabilisation of Jetbet.

The financial statements for the year to 31 July 2012, which are being prepared for release in November, will include an impairment adjustment for the wagering system project. Last financial year an impairment of \$3.2 million was accounted for. This year it is estimated that the impairment will be circa \$12 million. Therefore the project has a cost of approximately \$15.2 million.

This impairment will not affect agreed distributions to the Codes.

Operational delivery

Project	2012/13	2013/14
Jetbet Stabilisation Programme: ensure the longevity of the Jetbet wagering platform; ensure application ability to achieve revenue targets and support customer base for next three-five years	Initiation of phases one and two of Jetbet Stabilisation Programme; completion of phase one	Completion of phase two
Technology environment refresh	Complete replacement of core wagering environment infrastructure	Continued lifecycle management of NZ Racing Board technology assets
Operating system upgrade	Initiate upgrade of core operating systems reaching end of support	Complete core operating system upgrade



Business delivery

Project	2012/13	2013/14
Place6 product development	Develop and deploy	Review and optimise
Fixed Odds Betting automation	Assess and integrate finalised toolsets into NZ Racing Board Technology Landscape	
CRM integration	Initial implementation of a Cloud-based CRM product, integrate with current customer information	Extend CRM implementation to increase customer segments
Live-streaming	Enhance Watch&Bet service and implement live-streaming for racing	Extend live-streaming capabilities

RISK OVERSIGHT

The NZ Racing Board manages risk through regular reviews of its policies, systems and practices, and focuses on ensuring the required culture and practices are in place across the business. The Board of the NZ Racing Board has the ultimate responsibility for reviewing all aspects of financial and operational risk management. Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, systems or from external events. Examples include failure to comply with policy and legislation, human error, natural disasters, fraud and other malicious acts. Where appropriate, risks are mitigated by insurance.

Management review the operational risk profile of the business and the controls and/or mitigation plans that are in place to address issues such as an interruption to business continuity and/or information technology failure. The controls in place to monitor other operational risks, such as external and internal fraud, money laundering and security breaches, are also regularly reviewed.

The NZ Racing Board's internal assurance function conducts independent reviews that assist the Board and management to meet their statutory and other obligations. The assurance function is part of Governance and Assurance area, which has reporting lines to the Chairperson of the NZ Racing Board, the Chair of the Audit & Finance Committee and to management via the Chief Executive.

The internal assurance function conducts or oversees independent appraisals of:

- the continued operation and effectiveness of internal management controls in place to safeguard and monitor all material risks to the NZ Racing Board;
- the completeness and accuracy of the financial and other records of the NZ Racing Board;
- compliance with Board policies and management directives;
- the economic and efficient management of resources; and
- the effectiveness of operations undertaken by the NZ Racing Board.

In performing this role, the internal assurance function adopts a risk-based approach and a Strategic Audit plan is prepared annually covering each business area of the NZ Racing Board, with greater emphasis placed on those areas where the highest risk exists. The Plan is developed in conjunction with the NZ Racing Board's external auditor PricewaterhouseCoopers and is approved by the Audit and Finance Committee.

KEY FINANCIAL FORECASTS – SUMMARY

	10/11 Actual	11/12 Forecast	12/13 Budget	13/14 Forecast	14/15 Forecast
Wagering Turnovers					
Domestic Racing					
-Totalisator	690,454	651,206	623,561	605,051	586,140
- Fixed Odds	101,140	132,256	164,355	171,451	178,843
International Racing					
-Totalisator	502,791	535,972	589,390	612,521	636,481
- Fixed Odds	47,590	57,274	70,995	81,669	89,829
Sports	191,427	245,657	242,176	310,025	306,919
Total Wagering Turnover	1,533,401	1,622,365	1,690,477	1,780,717	1,798,212
Wagering Net Revenues					
Net Betting Revenue	228,157	238,423	246,282	254,026	255,804
Export Commission	20,780	21,701	21,701	21,701	21,701
Total Wagering Revenue	248,937	260,124	267,983	275,727	277,505

	10/11 Actual	11/12 Forecast	12/13 Budget	13/14 Forecast	14/15 Forecast
Total Wagering turnover	1,533,401	1,622,365	1,690,477	1,780,717	1,798,212
Net Betting Margin	215,054	225,232	233,042	241,057	243,083
Other direct revenue	13,104	13,191	13,239	12,970	12,721
Net Betting Revenue	228,158	238,423	246,282	254,026	255,804
Export commission	20,780	21,701	21,701	21,701	21,701
Total Turnover	248,938	260,124	267,983	275,727	277,505
Cost of Goods Sold	(47,349)	(47,715)	(48,547)	(51,506)	(51,388)
Other operational revenue	21,492	25,256	24,404	23,454	23,504
Total Operating Income	223,081	237,665	243,840	247,675	249,621
Operational Expenses	(84,398)	(93,359)	(98,805)	(99,931)	(99,568)
Impairment	(3,200)	(12,000)	0	0	0
Depreciation & Interest	(11,648)	(10,626)	(11,035)	(12,744)	(13,053)
Profit	123,831	121,680	134,000	135,000	137,000

Notes:

1. This format is simplified and does not reflect the statutory reporting format.
2. Impairment – Project Ignite: A review of options regarding a new wagering system was completed in July 2012. As a result, work in progress on the development of a new wagering system (Helix) is considered to be significantly impaired – an estimated total \$12 million, will likely be written off in 2012 (\$3.2 million was impaired in 2011). This impairment will not affect agreed distributions to the Codes.
3. Following TVNZ's decision to sell its Avalon studios facility the NZ Racing Board was given notice to vacate its leased premises at the facility by July 31, 2013. A project to evaluate options – including an "own versus rent" model – is in progress.

 **COMMENTARY**

The new Board has made a priority of challenging the cost structure of the business in order to position it for growth.

The 2011/12 forecast column represents the preliminary unaudited results for the recently completed year to 31 July 2012, before final year-end adjustments such as impairment.

The TAB business is experiencing a decline in its customer base and a decline in the consumption of its most profitable product, the domestic tote. These are long-run trends.

In order to maintain and grow profitability, the NZ Racing Board has undertaken a range of initiatives, both recently completed and planned. These initiatives involve changes to the products sold and the customer experience and have the following characteristics:

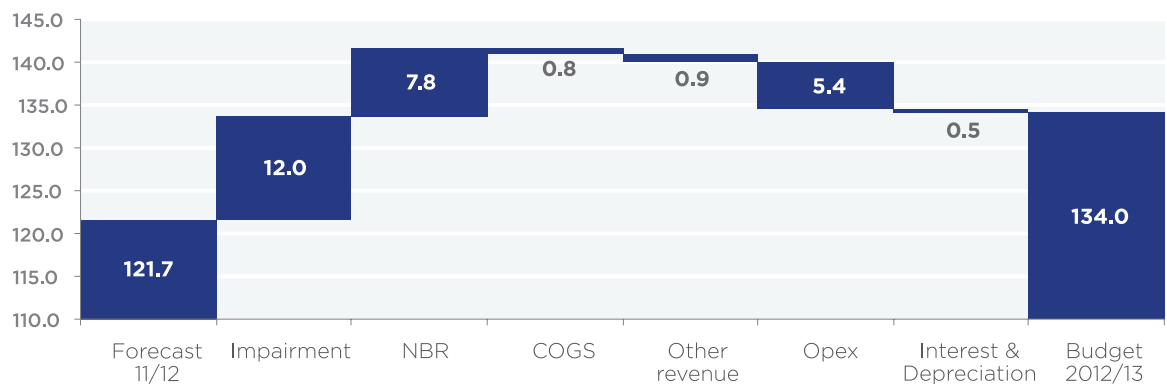
- Generally the customer initiatives provide additional product range or have enhanced the betting experience but the revenue generated has been at a lower margin than the historical base business. While forecasting a positive contribution, they do add an additional layer of activity and cost, but are necessary to compensate for the declining tote business;
- Cost reduction opportunities, such as right-sizing physical delivery channels, incur restructuring costs to affect the change. While the restructuring increases the short term costs, it does release savings in the following years.
- The challenge for the business in the planned cost review is to reduce costs so that it can invest in growth via new initiatives but, in doing so, keep year-on-year run rate costs at the same level or lower (the current budget/forecast figures above assume that these initiatives will increase costs and profits).



Summary cost trend

	10/11 Actual	11/12 Forecast	12/13 Budget	13/14 Forecast	14/15 Forecast
Total expenses					
Cost of goods sold	(47,349)	(47,715)	(48,547)	(51,506)	(51,388)
Operating expenses	(84,398)	(93,359)	(98,805)	(99,931)	(99,568)
Impairment	(3,200)	(12,000)	0	0	0
Depreciation	(13,728)	(12,525)	(12,582)	(14,291)	(14,600)
	(148,675)	(165,599)	(159,934)	(165,728)	(165,556)
TOTE Growth %		-0.5%	2.2%	0.4%	0.4%
FOB Growth %		28.1%	9.7%	18.0%	2.2%
COGS % Increase/(decrease)		0.8%	1.7%	6.1%	(-0.2%)
OPEX % increase/(decrease)		10.6%	5.8%	1.1%	(-0.4%)

Waterfall - From the 2011/12 financial year forecast result to the 2013 budget



NBR = net betting revenue, COGS = cost of goods sold; Opex = operating expenditure

Summary of the expected financial impact of initiatives

As noted, in the budget initiatives build on the base to mitigate the current trends - declining customer base and domestic tote. These initiatives include:

1. Customer acquisition/marketing;
2. Takeout rate increases;
3. Live sport streaming - started late last financial year;
4. Lifecycle of odds - new offering;
5. Place6 product - new offering;
6. High Value Customer management - enhances service;
7. Channel right-sizing - retail and Phonebet;

The following table summarises the expected financial impact of the initiatives on the achievement of the 2012/13 budget:

	Initiatives - total	Comment
Turnover	60,672	Total turnover from sum of initiatives
Net betting revenue	11,978	
Cost of Goods Sold	(2,465)	High Value Customer management/overseas racing costs (\$2,007)
Other operational revenue	0	
Operational expenses	(5,683)	Customer acquisition (\$2,762), live-streaming (938), lifecycle of odds (\$546), Place6 (\$345), High Value Customers (\$717)
Interest	0	
Depreciation	0	
Profit	3,830	
Total costs	(8,148)	

Year-on-year increase in costs

Total costs 2011/12 (\$165,599 less impairment est. of \$12,000)	(\$153,599)
Total costs 2012/13	(\$159,934)
Net movement	(\$6,335)
Cost of initiatives	(\$8,148)
Other reductions in cost base, excluding initiatives	\$1,813
Net movement	(\$6,335)



CAPEX 2012/13

Capital expenditure will focus on activity that is required to deliver the profit budget of \$134 million. That is activity to keep services operating and activity to enable short-term payback.

PROCEEDS OF CLASS 4 GAMING ACTIVITIES

From August 2011 the NZ Racing Board, in accordance with Section 33 of the Gambling Act 2003, obtained a licence from the Department of Internal Affairs to operate Class 4 gaming activities within sites owned or leased by NZ Racing Board and used mainly for the purpose of wagering on racing or sports.

Throughout 2011/12 the transfer of operation of existing machines from incumbent operators to the NZ Racing Board was completed, with 32 sites operating under the NZ Racing Board's licence.

Net proceeds available for distribution to authorised purposes from Class 4 gaming activities at NZ Racing Board sites in 2011/12 was \$6.8 million.

The Net Proceeds committee of the Board distributes net proceeds of NZ Racing Board's Class 4 gaming (gaming proceeds less GST/Duties and direct operating costs) in accordance with its authorised purposes, with not less than 80% to be distributed to racing and the remainder to amateur sports.

Net proceeds available for distribution to authorised purposes is projected to be circa \$7.5 million in 2012/13. This is in addition to the profit from wagering, estimated to be \$134 million in 2012/13.

DISTRIBUTABLE PAYMENTS TO RACING CODES

As provided under Section 16 of the Racing Act, the NZ Racing Board and the Racing Codes have an agreed funding allocation for four years with a number of performance criteria and financial commitments on all parties.

Under the written agreement, which is managed under the auspices of Combined Racing Industry Group, the future growth of monies will be allocated on the basis of that agreement. The agreement commenced in 2011/12.

COMPARATIVE ANALYSIS: YEAR-ON-YEAR

2011/12 financial year – 2011-14 Statement of Intent compared to the forecast result

This section compares what was forecast for 2011/12 in the previous 2011-14 Statement of Intent to the forecast preliminary unaudited result for the year to 31 July 2012. The forecast result is, subject to final year-end adjustments including impairment, a profit of \$133.7 million. The underlying trading profit, after the exclusion of one-off revenue items, is expected to be \$131 million. The one-off revenue items include:

- the sale of broadcast spectrum rights for \$900,000;
- the benefit, net of costs, from an Australian Taxation Office settlement of \$1.4 million; and
- a gain on the sale of property of \$400,000.

The result features:

- topline turnover and margin growth driven by (i) the investment in the Rugby World Cup; (ii) increased revenue from High Value Customers (iii) increased revenue from new products (increased options for sport and racing Fixed Odds Betting and Final Field Place); and (iv) growth in the average ticket values;
- other revenue growth including one-off items – a positive settlement with the ATO on Australian tax paid on this income and spectrum rights sale;
- the cost of restructuring channels – voluntary redundancy in the Phonebet channel;
- a number of technology activity linked additional costs – additional consultancy costs, project activity not supporting capitalisation expectations of labour costs, higher cost of telecommunications service.



\$'000	11/12 year per 2011 SOI	11/12 year per Preliminary	Change	Comment
Total Turnover	1,597,169	1,622,365	25,196	Tote down overall, domestic tote down, imported tote up. Fixed Odds up;
Net Betting Revenue <i>Net Betting Margin</i>	233,365 14.61%	238,423 14.70%	5,058	Turnover growth, FOB margin up
Cost of Goods sold	(44,841)	(47,715)	(2,874)	Turnover-driven cost – higher cost of sport FOB – payments to NSO \$700 and higher cost of overseas racing \$1,900
Gross Margin	188,524	190,708	2,184	
Other revenue	43,014	46,957	3,943	Export revenue \$2,300 including release of tax paid in Australia on overseas racing revenue – ATO settlement \$1,800; spectrum license sale \$900
Total Operating Income	231,538	237,665	6,127	
Total operating expenses	(88,779)	(93,359)	(4,580)	Includes restructuring \$800, Labour capitalisation \$2,400 not achieved, higher telecoms spend \$1,200; Consulting – computer project review 2011 \$500, Legal \$450 – includes cost of ATO settlement
Impairment	0	(12,000)	(12,000)	Computer system impairment estimate – completed review
Depreciation and interest	(12,802)	(10,626)	2,176	Interest up \$391, Depreciation down \$1,785 because of lower capital expenditure
Profit	129,957	121,680	(8,277)	
Total expenditure (excluding impairment)	(147,930)	(153,599)	(5,669)	
Total profit (excluding impairment)	129,957	133,680	3,723	



2012/13 financial year – 2011-14 Statement of Intent compared to the 2012/13 budget

This section compares what was forecast for 2012/13 in the previous 2011-14 Statement of Intent to the budget for the year to 31 July 2013.

In broad terms, since last year, the business has

experienced a decline in domestic Tote product sales. Expectations regarding opportunities for wagering on imported racing and fixed odds products have increased, largely on the back of the new initiatives outlined previously. The following table compares key financial information between this Statement of Intent and last year's statement in relation to the 2012/13 financial year.

\$'000	12/13 year per 2011 SOI	12/13 year per this 2012 SOI	Change	Comment
Total Turnover	1,628,014	1,690,477	62,463	Tote down overall, domestic tote down, imported tote up. Fixed Odds turnover up for both Racing and Sport;
Net Betting Revenue <i>Net Betting Margin</i>	238,168 14.63%	246,282 14.57%	8,114	Turnover growth, bet mix includes more lower margin FOB product, mitigated by a change in tote takeout rates
Cost of Goods sold	(44,841)	(48,547)	(3,706)	Turnover-driven cost – higher cost of sport FOB – payments to NSO \$725 and higher cost of importing and selling overseas racing product \$3,125
Gross Margin	193,327	197,735	4,408	
Other revenue	43,014	46,105	3,091	Export revenue \$800, Racing services re charge for calendar changes \$400, cost recovery – gaming overheads \$350, bank transaction fees \$450, broadcasting \$200
Total Operating Income	236,341	243,840	7,499	
Total operating expenses	(89,666)	(98,805)	(9,139)	Includes new initiatives \$5,683; broadcasting cost – new calendar \$600; Insurance \$700; Telecommunications \$600; IT maintenance \$350
Depreciation and interest	(12,710)	(11,035)	1,675	Depreciation down \$1,728 because of lower capital expenditure
Profit	133,965	34,000	35	

STATEMENT OF ACCOUNTING POLICIES

REPORTING ENTITY

The New Zealand Racing Board is a statutory body established pursuant to the Racing Act 2003. The New Zealand Racing Board is domiciled in New Zealand, with its head office located at 106-110 Jackson Street, Petone, Wellington.

The principal objectives of the New Zealand Racing Board are:

- (a) to promote the racing industry; and
- (b) to facilitate and promote racing betting and sports betting; and
- (c) to maximise its profits for the long-term benefit of New Zealand racing.

These financial statements are prepared in accordance with the Racing Act 2003. The Racing Act 2003 requires disclosure of budgeted amounts approved by the Board and that the financial statements are prepared in accordance with generally accepted accounting practice.

STATEMENT OF COMPLIANCE

For financial reporting purposes, the New Zealand Racing Board is designated a profit-oriented entity.

These financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'). They comply with the New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and other applicable financial reporting standards as appropriate for profit-oriented entities. These financial statements comply with International Financial Reporting Standards.

BASIS OF PREPARATION

These financial statements have been prepared on the basis of historical cost except for those assets and liabilities recognised at fair value as outlined in the accounting policies below. Cost is based on the fair value of the consideration given in exchange.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The accounting policies and computation methods set out below have been applied in preparing the financial statements for the year

ended 31 July 2012 and the information presented for the comparative period.

The financial statements are parent and group financial statements. The group comprises the New Zealand Racing Board, the Racing Integrity Unit and the Betting Accounts and Betting Vouchers Trust.

The financial statements of the group are the same as those of the parent as all assets and liabilities of the Trust are held by New Zealand Racing Board as trustee.

Racing Integrity Unit Limited was established on 1 February 2011 and their expenses are included in "Funding to the Racing Industry" in the Income Statement and disclosed in note 20.

CONSOLIDATION

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by the New Zealand Racing Board as at 31 July 2012 and the results of the operations of such entities for the year then ended. New Zealand Racing Board and such entities are together referred to in these financial statements as the New Zealand Racing Board.

Controlled entities are those entities over which the New Zealand Racing Board has the power to govern the entity's financial and operating policies.

Controlled entities are consolidated from the date on which control is transferred to the New Zealand Racing Board. They are de-consolidated from the date that control ceases.

Balances between controlled entities, including inter-entity transactions, are eliminated.

APPLICATION OF NEW AND AMENDED ACCOUNTING STANDARDS

The following new and amended accounting standard, applicable to the New Zealand Racing Board's annual reporting period beginning on or after 1 August 2011, have been applied from the beginning of the 2012 financial year. The amendment of this standard has not had any impact on the financial results of the New Zealand Racing Board.

Amendments to NZ IAS 24 Related Party Disclosures. The amendments simplify the definition of a related party and provide further clarification of its intended meaning.



KEY SOURCES OF ESTIMATION UNCERTAINTY

There are no key assumptions concerning the future, or other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, with the exception of the assessment of carrying value of the new wagering system in note 12.

SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies have been adopted in the preparation and presentation of the financial statements.

(a) Revenue recognition

Revenue is recognised to the extent it is probable that the economic benefits will flow to the New Zealand Racing Board and the revenue can be reliably measured. The following general and specific recognition criteria must also be met before revenue is recognised:

The wagers placed on a betting event are recognised as deferred revenue (pre-sales) until the outcome of the betting event is determined, at which time the revenue is brought to account.

Net Betting Revenue

Net Betting Revenue consists of resulted turnover less dividends paid and payable to customers, and less duty and GST payable to the Inland Revenue Department. Except where otherwise noted, Net Betting Revenue is recognised once the outcome of the betting event is confirmed.

Totalisator revenue

Totalisator revenue is recognised once the outcome of the betting event is confirmed.

Fixed odds betting revenue

Revenue is recognised as the net win or net loss on an event. Open betting positions are carried at fair market value and gains and losses arising on these positions are recognised in revenue.

International racing fees

International racing fees is income earned by the New Zealand Racing Board through the export of New Zealand racing events to international betting agencies. This

revenue is based on the turnover taken by the international betting agencies on the exported racing events and is recognised at the time that the racing event takes place.

Interest income

Interest income is recognised using the effective interest method.

Racing services income

Racing services income refers to income the New Zealand Racing Board derives from providing on-course race day services to racing clubs, recovered as part of the funding arrangements from the Code Bodies. This revenue is recognised at the time that the racing event take place.

Contributions towards assets

Contributions towards assets received from the Racing Code Bodies for laboratory equipment purchased by the New Zealand Racing Board are recognised as deferred income over the estimated useful life of the laboratory assets.

(b) Foreign currency transactions

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at reporting date. Foreign exchange differences are recognised in the income statement in the period in which they arise.

The functional and presentation currency is the New Zealand dollar.

(c) Goods and Services Tax (GST)

The income statement and statement of cash flows are prepared on a GST exclusive basis except for betting turnover and dividends paid to customers. The GST component in betting turnover represents the GST payable on betting deductions and net betting revenue as outlined in section 53 of the Racing Act 2003. All items in the statement of financial position and statement of changes in equity are stated net of GST, with the exception of trade receivables and payables which are recognised inclusive of GST.

(d) Income Tax

The New Zealand Racing Board is exempt from income tax pursuant to section CW47 of the Income Tax Act 2007.



(e) Inventories

Inventories, including betting slips, are valued at the lower of cost and net realisable value, as determined on a weighted average basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

(f) Financial assets (other than derivatives)

Initial recognition

Financial assets are initially recognised at their fair value when the New Zealand Racing Board becomes a party to the contractual provisions of the financial instrument. Initial fair value is considered to be the cost price of the instrument except in the circumstances described below.

Club loans

Where club loans are advanced at an interest rate that is below the market rate for an investment on similar terms and of similar credit quality, the loan's initial fair value is less than its cost. Consequently, these loans are initially recognised at their fair value rather than cost. Fair value is determined by reference to bank lending rates for loans on similar terms and of equivalent credit quality.

Trade date recognition for investments

Investments are recognised and derecognised on trade date where purchase or sale of the investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned. These investments are initially measured at fair value, net of transaction costs.

Subsequent measurement

Financial assets (other than derivatives) are classified into the following specified categories: 'loans and receivables' and 'held-to-maturity investments'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Loans and receivables

Loans and receivables comprising cash and cash equivalents, trade receivables, club loans, and other receivables, are non-derivative financial assets with fixed or

determinable payments that are not quoted in an active market.

Those loans and receivables with a maturity date within twelve months of the reporting date are recognised in current assets in the Statement of Financial Position while those with maturities greater than twelve months are recognised as non-current assets.

Loans and receivables are carried at amortised cost using the effective interest method less any impairment.

Held-to-maturity investments

Held-to-maturity investments, comprising corporate bonds and certain short-term deposits, are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity (other than those instruments classified as loans and receivables).

Held-to-maturity investments are carried at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows over the expected life of the financial asset, or where appropriate over a shorter period, to the net carrying amount of the financial asset.

Cash and cash equivalents

Cash and cash equivalents are financial assets comprising cash on hand, cash at bank and investments with an initial term of less than three months.

(g) Impairment of financial assets

At the end of each reporting period and whenever circumstances warrant, financial assets are assessed for objective evidence of impairment.

Any financial asset impairment losses are recognised within "Operating expenses" in the Income Statement.

(h) Financial liabilities (other than derivatives)

Initial recognition and subsequent measurement

Financial liabilities are initially recognised at fair value and subsequently measured at

amortised cost using the effective interest rate method.

Trade and other accounts payable

Trade and other accounts payable are recognised when the New Zealand Racing Board becomes obliged to make future payments resulting from the purchase of goods and services.

Unpaid dividends

Unpaid dividends represents the liability due to winning customers that has yet to be claimed. Unpaid dividends are recognised at the time the related revenue is recognised.

Jackpot retentions

Jackpot retentions are established in accordance with the Racing Rules pursuant to section 52 of the Racing Act 2003. These comprise amounts set aside from the dividend pools of certain specified bet types. The funds accumulated are used solely for supplementing some of the future dividend pools for the originating racing or sports code.

Other financial liabilities

Other financial liabilities are measured initially at fair value and subsequently at amortised cost using the effective interest rate method.

(i) Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-valued to their fair value at each reporting date. The resulting gain or loss on revaluation is recognised in the income statement within "Other income". The New Zealand Racing Board does not hedge account.

Fixed odds betting positions

Fixed odds betting positions are considered derivative financial instruments for financial reporting purposes.

(j) Property, plant and equipment

Property, plant and equipment is measured at cost less accumulated depreciation and any impairment.

The deemed cost for land and buildings is the valuation on the inception of the New Zealand Racing Board in 2003.

Depreciation is calculated on a straight line basis so as to allocate the cost of each asset

over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period.

The current annual depreciation rates are as follows:

Buildings and fit out (at deemed cost)	2.5% - 10%
Computer hardware	14.3% - 33.3%
Furniture, office equipment and plant	10.0% - 20.0%
Leasehold improvements	14.3% - 20.0%
Motor vehicles	14.3% - 33.3%
Operations and trackside equipment	20.0%
Gaming machines	33.0%

Gains and losses on disposals are determined by comparing the sale proceeds with the asset's carrying amount at the disposal date. The resulting gain or loss is recognised in the Income Statement within "Other income" or "Operating expenses" as appropriate.

(k) Lease assets

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Finance leases

Assets held under finance leases are initially recognised at their fair value, or if lower, at amounts equal to the present value of the minimum lease payments, determined at the inception of the lease. The corresponding obligation to the lessor is included in the Statement of Financial Position as a finance lease liability.

Finance lease payments are apportioned between finance charges and reduction in the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

Assets subject to finance leases are



depreciated on a straight-line basis over the shorter of the asset's estimated useful life or the lease term.

Operating leases

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

(l) Intangible assets

Broadcasting licences, software and other intangible assets are finite-life intangible assets carried at cost less accumulated amortisation and any impairment. Amortisation is charged on a straight-line basis over their estimated useful lives and is recognised within "Operating expenses" in the income statement. The estimated useful life and amortisation method is reviewed at the end of each annual reporting period.

The current annual amortisation rates are as follows:

Broadcasting licences	5.0% - 38.5%
Other intangible assets	16.70%
Software	14.3% - 33.3%

(m) Impairment of non-financial assets

At each reporting date, the New Zealand Racing Board reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Intangible assets not yet available for use are tested for impairment annually by comparing their carrying amounts with their recoverable amounts.

Where the asset does not generate cash flows that are independent from other assets, the New Zealand Racing Board estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to

the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. Any impairment loss is recognised immediately in the Income Statement. If an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the Income Statement.

(n) Provisions

Provisions are recognised when the New Zealand Racing Board has a present obligation as a result of a past event, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

(o) Employee benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, retirement gratuities and sick leave when it is probable that settlement will be required and the benefits are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits that are not expected to be settled within 12 months are measured as the present value of the estimated future cash

outflows to be made by the New Zealand Racing Board. Future cash flows have been estimated based on service completed to date, expected length of service and estimated future remuneration rates. The discount rates used are government stock rates consistent with the term of the obligation.

(p) Netting in the Statement of Cash Flows

The movements in Jackpot retentions and in Goods and Services Tax have been presented net in the Statement of Cash Flows as the transactions are settled over a short period of time.

The movement in Account deposits has been presented net in the Statement of Cash Flows as these movements represent customer transactions rather than transactions of the New Zealand Racing Board.

(q) Funding

Funding payments are made based on the contractual funding agreements between the New Zealand Racing Board and the Racing Codes.

Distributions (gaming activity funding) are approved by the New Zealand Racing Board's Net Proceeds Committee under a grants policy that ensures that the authorised purpose is consistent with the purpose specified in the New Zealand Racing Board's licence.

The Gambling (Net Proceeds) regulations 2004 requires any undistributed surplus at year end to be recorded as a liability in the Statement of Financial Position and an accrued distribution in the Income Statement.

(r) Gaming machine proceeds

Gaming machine proceeds (GMP) are recognised in the period in which the services were rendered.

(s) Gaming machine duty

Gaming machine duty is payable on the GMP that the New Zealand Racing Board takes from its gaming machines. It is charged at 20% of the GMP GST inclusive total.

(t) New financial reporting standards and amendments not yet applied

The following financial reporting standards and amendments have been issued and have not been applied in the preparation of these financial statements. The New Zealand Racing Board considers that the application of these standards and amendments will have an immaterial recognition and disclosure impact on the financial statements.

NZ IFRS 9 Financial Instruments (*effective for reporting periods commencing on or after 1 January 2013*)

NZ IFRS 9 requires the re-classification of financial assets into two categories - those recognised and measured at amortised cost and those recognised and measured at fair value. Classification is dependent upon the business model adopted for managing the financial assets and upon specified criteria.

NZ IFRS 13 Fair value measurement (*effective for reporting periods commencing on or after 1 January 2013*)

NZ IFRS 13 establishes a single source of guidance under NZ IFRS for determining the fair value of assets and liabilities. This standard will also expand the disclosure requirements for all assets or liabilities carried at fair value.

The New Zealand Racing Board intends to apply the above standards for the financial period ending 31 July 2014.

NZ IFRS 7 Financial instruments (*effective for entities with a year end date of 31 December 2012*)

NZ IFRS 7 introduces some additional disclosures that apply on the transfer of financial assets.

NZ IAS 1 Presentation of financial statements (*effective for reporting periods commencing on or after 1 July 2012*)

NZ IAS 1 changes the disclosure of items presented in other comprehensive income.

The New Zealand Racing Board intends to apply the above two amended standards for the financial period ending 31 July 2013.

The following standards new and revised standards have to be implemented together and apply from 1 January 2013:

NZ IFRS 10 *Consolidated Financial Statements* changes the definition of control.



NZ IFRS 11 *Joint arrangements* reduces the types of joint arrangement to joint operations and joint ventures, and prohibits the use of proportional consolidation.

NZ IFRS 12 *Disclosure of interests in Other Entities* brings together in one standard entities and unconsolidated structured entities.

NZ IAS 27 *Separate Financial Statements (revised)* now deals only with separate financial statements.

NZ IAS 28 *Investments in Associates and Joint Ventures (revised)* covers equity accounting for joint ventures as well as associates.

NZ RACING BOARD

106-110 Jackson St, Petone 5012

PO Box 38 899, Wellington Mail Centre, Lower Hutt

New Zealand

Telephone (04) 576 6999

Fax (04) 576 6160

Website www.nzracingboard.co.nz

BOARD MEMBERS

Dr Alan Jackson - Chairman

Mauro Barsi

Graham Cooney

Rod Croon

Liz Dawson

Greg McCarthy

Alistair Ryan

LEADERSHIP TEAM

Chris Bayliss

Chief Executive Officer

Glen Broomhall

General Manager Broadcasting

David Craig

General Manager Sales and Marketing

Fleur Murray

General Manager Human Resources

Colin Philp

Chief Information Officer (designate)

Stuart Robb

Chief Financial Officer

Martin Saunders

General Manager Wagering, Racing and Sport

Michael Wemyss

General Manager Governance and Assurance

APPENDIX 1: THE RACING ACT 2003



The NZ Racing Board was established in 2003 under the Racing Act as the organisation tasked with administering all racing and sports wagering in New Zealand.

As set out under the Racing Act, the objectives of the Board are:

- (a) To promote the racing industry;
- (b) To facilitate and promote racing betting and sports betting; and
- (c) To maximise its profits for the long-term benefit of New Zealand racing.

The Racing Act also sets out a broad range of functions that the NZ Racing Board must undertake:

- (a) To develop policies that are conducive to the overall economic development of the racing industry, and the economic well-being of people who, and organisations which, derive their livelihoods from racing;
- (b) To determine the racing calendar each year, and issue betting licences;
- (c) To conduct racing betting and sports betting, and make rules relating to betting;
- (d) To distribute funds obtained from betting to the racing codes;
- (e) To administer the racing judicial system;
- (f) To develop or implement, or arrange for the development or implementation of, programmes for the purposes of reducing problem gambling and minimising the effects of that gambling;
- (g) To undertake, or arrange for the undertaking of, research, development, and education for the benefit of New Zealand racing;
- (h) To use its resources, including financial, technical, physical, and human resources, for purposes that, in the opinion of the Board, will directly or indirectly benefit New Zealand racing;
- (i) To keep under review all aspects of racing and to advise the Minister of those aspects, either on its own initiative or at the request of the Minister; and
- (j) Any other functions that it is given by or under this Act or any other Act.

