

NEW ZEALAND RACING BOARD

# STATEMENT OF INTENT

AUGUST 2011

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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 2012, 2013 and 2014.

This statement sets out the overall intentions and objectives of the NZ Racing Board during this three-year period.

On behalf of the NZ Racing Board.



Michael Stiasny, Chairman

# NZ RACING BOARD'S ROLE

## OUR PURPOSE

To promote the racing industry and maximise the proceeds of wagering for the benefit of the racing industry.

The racing industry is principally composed of the racing and breeding operations of Thoroughbred, Harness and Greyhound racing.

Each of these three Racing Codes is governed by Rules of Racing respectively administered by NZ Thoroughbred Racing, Harness Racing NZ and the NZ Greyhound Racing Association.

## OUR BACKGROUND AND STATUTORY FUNCTIONS

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.

## GOVERNANCE AND ORGANISATION

As proscribed under 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.

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 monthly (11 times a year) with the exception of January. Extraordinary meetings may be held if required. Senior NZ Racing Board management representatives – including the chief executive, chief financial officer and head of risk, legal and audit – also attend 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 five Board committees. Each committee considers relevant issues under separate written charters. The five committees are:

- The Dates Committee which sets the racing calendar in consultation with the racing Codes.
- The Audit and Finance Committee which assists the board in discharging its financial reporting responsibilities, risk management practices and internal/external auditing.

- The Compensation and Development Committee which monitors issues, practices and policies relating to the remuneration of the chief executive and the senior executive committee, as well as overseeing management development and succession planning processes.
- The Sports Committee which monitors issues relating to sporting partnerships and wagering.
- The Net Proceeds Committee (newly formed) which will allocate the proceeds of Class 4 gaming activity to racing and amateur sports bodies for authorised purposes.

Day-to-day operations are the responsibility of the chief executive and senior members of the executive team.

The NZ Racing Board's corporate and operational head office is located in Petone, Wellington, with offices in Auckland, Hamilton, Palmerston North and Christchurch. Contractors to the organisation are located throughout the country. 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 usually attended informally by respective management while CEOs and Chairpersons formally meet on a regular basis. The NZ Racing Board is required to approve the business plan of each Racing Code.

### Judicial Control Authority and Racing Integrity Unit

The Judicial Control Authority was established 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.

### 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 the Minister for 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.

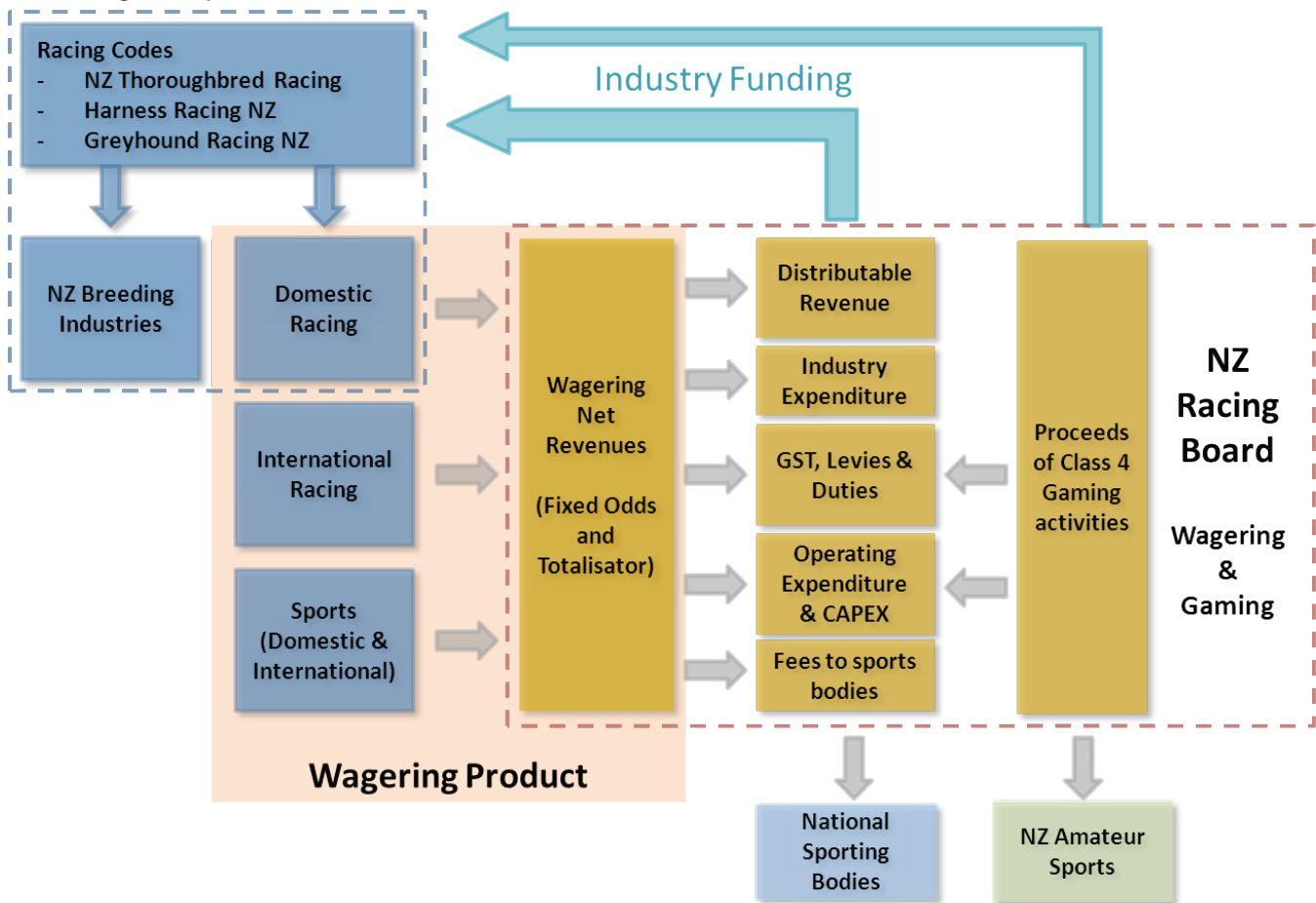
In addition to annual reporting, the NZ Racing Board also produces a half-yearly financial report.

### Other

The NZ Racing Board also consults with the various national sports bodies which derive income from a percentage of bets placed via the TAB on fixtures which fall under their jurisdiction.

# SUPPORTING THE NEW ZEALAND RACING INDUSTRY

This diagram provides a broad summary of the NZ Racing Board's gaming and wagering operations and the relationships with the wider racing industry.



This diagram includes the Class 4 gaming activities which are relevant from August 2011.

The red and blue dashed outlines describe the respective core responsibilities of the NZ Racing Board and the racing Codes.

Though the responsibilities are clear, there is significant liaison, consultation and agreement required between 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; and
- Monitoring of the financial wellbeing of Clubs.

It is worth outlining the composition of 'Industry Expenditure'. This 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 MAF Biosecurity NZ 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;
- Economic research; and
- 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.

## Revenue generation

Racing Codes are dependent on the NZ Racing Board for the bulk of the funding required to support their respective responsibility for support of race stakes, administration of racing, breeding, licensing activities, the maintenance of the respective Rules of Racing, and other ancillary activities. The NZ Racing Board recognises that the maximisation of funding to the Racing Codes is a primary responsibility.

Via this process the NZ Racing Board also supports stakes funding, administration and the breeding industry.

This funding is almost entirely derived from racing and sports wagering turnover. The forecast turnovers for the next three years are provided below.

### Key Forecasts

\$ million

	2011/12	2012/13	2013/14
<b>Domestic Wagering Turnovers</b>			
On Domestic Racing			
- Totalisator	702	709	717
- Fixed Odds	111	116	122
On International Racing			
- Totalisator	518	523	528
- Fixed Odds	49	51	54
On Sports	217	228	239
<b>Total Domestic Wagering Turnover</b>	<b>1,597</b>	<b>1,628</b>	<b>1,660</b>
<b>Wagering Net Revenues</b>			
Domestic Net Betting Revenue	233	238	242
Export commission	21	21	21
<b>Total Revenues</b>	<b>254</b>	<b>259</b>	<b>263</b>

Notes: 1. Domestic Net Betting Revenue is Domestic Wagering Turnover less Dividends, GST and Duty

2. Export commission is the net revenue provided by overseas betting on NZ racing

Net betting revenue (wagering turnover less dividends, GST, duties and other deductions) for 2011/12 is forecast to be \$233 million. Net of operating costs, a distributable profit of \$130 million is forecast. A full forecast financial summary for NZ Racing Board's core business is included on page 21 of this Statement of Intent.

## Proceeds of class 4 gaming activities

From August 2011 the NZ Racing Board, in accordance with Section 33 of the Gambling Act 2003, will be provided licence by the Department of Internal Affairs to operate Class 4 gaming activities, within sites that are owned or leased by NZ Racing Board and used mainly for the purposes of wagering on racing or sports. The intent of becoming a Class 4 operator is to increase the total revenues of the racing industry.

In most instances, this will involve a transfer of operation of existing machines from an incumbent operator to the NZ Racing Board. The transfer of sites will take place upon

expiry of existing contractual arrangements, with most sites transitioning in 2011/12. Net proceeds of Class 4 gaming activities is expected to be \$6 million in 2011/12 increasing to circa \$8 million by 2013/14 as the remaining sites come under the NZ Racing Board's licence.

The Net Proceeds committee of the Board will distribute 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 the Racing Codes and the remainder to amateur sporting bodies.

## Where the money goes

As provided under Section 16 of the Racing Act, the NZ Racing Board and the Racing Codes have agreed to a new allocation model for the 2011/12 season, which on achievement of key performance indicators has provision to be extended for a further three seasons.

If it is determined by the Chairpersons of the NZ Racing Board and the Racing Codes that the key performance indicators have not been met, then the Chairpersons will review the position for future seasons.

This new model provides NZ Thoroughbred Racing with the necessary funding to support key components of a

strategy to revitalise the thoroughbred racing in New Zealand. Recognising the importance of the ongoing vitality of thoroughbred racing to the wider racing and wagering industry, Harness Racing NZ and Greyhound Racing NZ support the strategy and the funding model.

It is proposed that under normal trading conditions, the \$130 million of distributable profit plus the approximately \$5 million of Class 4 gaming net proceeds (the racing share of the expected \$6 million), less any funding directed to Industry Expenditure, would be the minimum level of commitment for distribution of earnings to the racing industry through to July 2015, and is provided on the basis of the following volumes of racing being met.

Calendar schedule	2011/12 Season			2012/ to 2014/15		
	NZTR	HRNZ	GRNZ	NZTR	HRNZ	GRNZ
Meetings	353	280	415	369	265	415
Races	3,079	2,883	4,976	3,079	2,873	4,976

If the Board of NZ Racing Board determines that a greater amount is available for distribution, a model has been agreed to apportion this increment between the Racing Codes.

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# 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.

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.

## 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 to promote the racing industry, facilitate and promote racing betting and sports betting and to maximise its profits for the long-term benefit of New Zealand racing.

The Racing Act also requires the NZ Racing Board 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;
- determine the racing calendar each year and issue betting licences;

- conduct racing and sports betting, and make rules relating to betting;
- distribute funds obtained from betting to the racing codes;
- administer the racing judicial system;
- develop or implement problem gambling and harm minimisation programmes;
- ensure research, development and education for the benefit of New Zealand racing;
- use all resources for the benefit of the New Zealand racing industry;
- 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
- any other functions that it is given by or under this Act or any other Act.

## The Gambling Act 2003

The Gambling Act was enacted in September 2003 and marked a new era for New Zealand's gambling industry.

It introduced strict harm prevention and minimisation obligations and allocated 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 with regard to changing existing products and developing new products.

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

## Competition

Competition within New Zealand gambling industry has increased significantly since the New Zealand Totalisator Agency Board was established in 1950.

The NZ Racing Board faces direct 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 derives no benefit.

Measurable domestic wagering on racing has generally

remained static.

The NZ Racing Board's share of the gambling market grew from 11.7% in 2004 to 14.6% in 2010. Competitors such as NZ Lotteries have experienced faster growth, courtesy of an increased retail footprint, new games and larger jackpot runs.

The NZ Racing Board's gross wagering revenue has increased by 16% from 2004-2010, with turnover up by 28% over the same period. This has largely been driven by demand for lower margin Fixed Odds Betting on racing and sports.

Expenditure on gambling dipped 5.5% from 2009-2010 due to weak household spending growth, though expectations are that this decline will stabilise going forward.



## Problem Gambling

One of the NZ Racing Board's statutory functions is to maximise profits for the long-term benefit of the racing industry and national sports bodies.

We are also obligated 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 supports programmes that help protect people most at risk through an annual contribution to the problem Gambling Levy (2010: \$1.60m).

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.

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## International Environment

The NZ Racing Board has significantly increased 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 shown in many territories overseas, including Australia, the United Kingdom, Europe and Asia.

A percentage of monies wagered on New Zealand racing by these overseas customers is returned to the New Zealand racing industry via an agreed distribution funding model with the three racing Codes.

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

## Internet gambling and offshore leakage

The availability and accessibility of gambling via the Internet poses a significant issue for the NZ Racing Board, as does the ability of offshore gambling operators to offer bet types and products denied to the NZ Racing Board by law.

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 Zealand punters betting with overseas operators, internal estimates have put the net wagering loss at \$30 million a year – money that could be returned to racing and sport and the Government through tax. At least that amount is also lost overseas to other non-wagering gambling.

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. 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 a cheap marketing/media headline for customer recruitment.

While these operators are forbidden from advertising terrestrially in New Zealand, many gain exposure through sponsorship of sports and racing events shown on television and through online advertising with high-traffic news websites.

A major concern with overseas operators is that they 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.

The NZ Racing Board will continue to examine ways to address the offshore leakage issue alongside Government and the racing Codes.

## Economic environment

The prospect of economic recovery from mid-2009 failed to materialise and from early-2010 confidence among business and consumers dipped and became apparent.

Key factors impacting this confidence were:

- the increase in GST
- high inflation
- high petrol and food prices
- high unemployment and fears about job security
- high debt levels and restrictions on credit
- the high New Zealand dollar impacting the export sector
- slowing wage growth
- a weak housing market
- the impact of the Christchurch earthquakes

These factors have placed an extraordinary squeeze on discretionary spending and have impacted customers’ willingness to wager.

However, there has been a warming in the New Zealand economic climate in 2011 – despite the prospect of interest rate rises later in 2011 and the continuing rise of the New Zealand dollar.

The Canterbury rebuild and the coming Rugby World Cup are expected to boost GDP, with GDP growth forecast to reach 2.3% by March next year. It is unlikely the unemployment rate will drop markedly, though the employment outlook is expected to improve.

Growing business confidence is also expected to provide economic impetus as firms begin spending again after a period of austerity.

As spending on NZ Racing Board products is driven largely by customers’ discretionary dollars, the improving economy is expected to slow or halt the decline in betting frequency and average ticket value. Modest profit growth is forecast in the financial statements as a result of this, as well as the offering of better service, new products and more imported racing.

## Industry perception, integrity

Poor public perception of racing and wagering in New Zealand can have a negative impact on community and political support for the industry.

In 2010 and 2011 the NZ Racing Board commissioned The Nielsen Company to conduct research into the public perception of racing and wagering.

The 2011 report found that the New Zealand racing and wagering industry still faces significant challenges in positive perceptions, but that overall impressions were slowly improving (21% net positive in 2011; 16% in 2010). However, it is

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important to note the majority of respondents to the research viewed racing in a neutral or positive light.

Integrity remains a key issue. Perceived corruption and drugs in the racing industry, as well as concerns about the “morality” of gambling, problem gambling and value for money, continues to negatively influence overall perceptions.

The study showed that while there was a shift toward positive perceptions of racing and sports betting, it was a relatively slow process requiring ongoing and sustained effort long-term.

The launch of the Racing Integrity Unit in 2010 and its subsequent effectiveness in raising the standards of participants in the racing industry will play a positive role in improving perceptions.

The NZ Racing Board funds the Racing Integrity Unit on behalf of the Racing Codes. In its formation year it was directly funded by the three Racing Codes.

Improved media relations and the marketing profile around the NZ Racing Board and TAB are viewed as imperative issues to be addressed, with resource and efforts focused on these.

# OPERATING INTENTIONS

The NZ Racing Board is budgeting for its TAB operation to generate \$130 million in profit for distribution in 2011/12, increasing to a forecasted \$136.5 million in 2013/14.

Underpinning this is a drive to maximise profit from the current customer base, ensure new customer acquisition, offer new products and significantly enhance product accessibility and efficiency through new technology.

The NZ Racing Board will also seek to capitalise on gains made in improving the actual and perceived integrity of the racing industry.

The Board's TAB operation has held up relatively well in recession conditions. These conditions have lasted longer than anticipated, reflected in more conservative spending by customers, with declines in betting frequency and value.

The TAB has mitigated this by offering increased betting options (more imported product, increased Fixed Odds Betting options), increasing the value of Fixed Odds Betting products

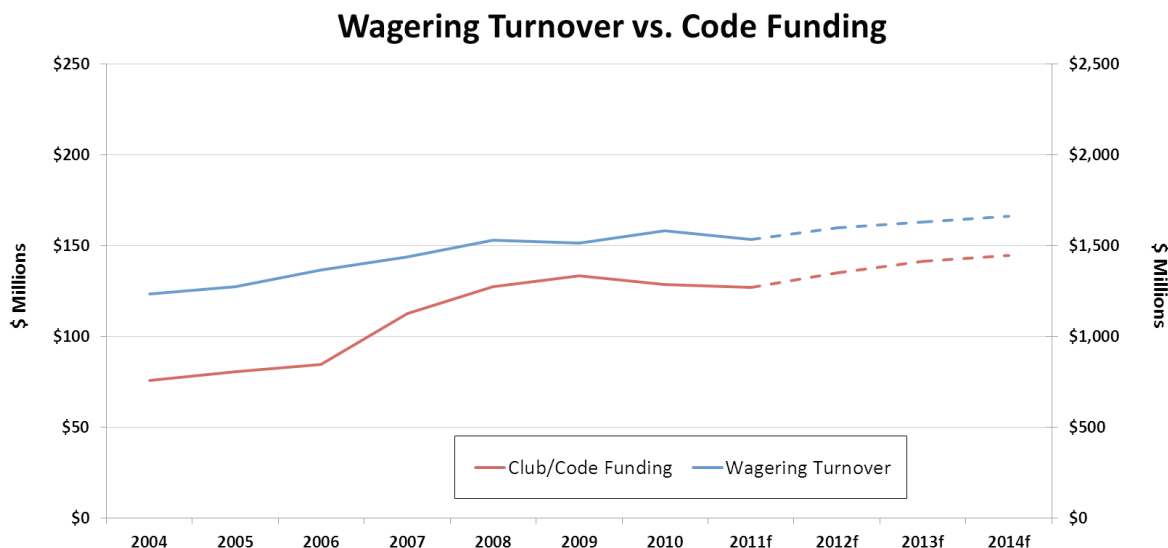
and increasing income from the export of New Zealand racing.

The TAB continues to migrate to more modern and relevant delivery mechanisms – digital TV transmission, Internet, mobile, self-serve terminals and enhanced retail screens.

In the 2009/10 season the NZ Racing Board defined five aspirational goals that comprised the Racing Ahead strategy, aligned to a vision that the NZ Racing Board would lead New Zealand racing and its wagering services to become the best in the world.

Economic circumstances and the principal commitment to maintain the overall level of funding to the Racing Codes have required a reining in of the initiatives and tactics that underpinned the Racing Ahead strategy. For these reasons, the financial targets set down are no longer considered achievable.

The graph below describes the current outlook:



A revision of strategy has been required in response to the current operating environment, the most significant change being a deferral of a major capital investment in the retail network. However, in most cases the initiatives are continuing on a more measured basis, with a priority given to those initiatives which may provide a more immediate growth in funding available for distribution to the Racing Codes.

## 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, improve turnover conversion and grow margins;
- Increase frequency of customer engagement;
- Provide the full product range that is currently offered by our competitors;
- Combat customer leakage and win back customers; and
- Leverage both current and future technology and use it as a platform to make enhancements.

## Fixed Odds

Third-party software will further automate and enhance our “In-Play” and “Non-Core Book” offering, allowing us to increase the depth and breadth of our coverage and maximise the streaming opportunity.

We are in the process of increasing the number of available Fixed Odds Betting options from 999 to 1999. This will pave the way for the introduction of Final Field Place Betting to complement the existing Final Field Win offering.

## Tote Products

We will introduce a number of new Tote betting products that will provide more customer choice and allow us to provide a comparable offering to our competition. The new bet types include:

- Place 6 – Pick the placegetter in each of six races (similar to the Pick 6)
- Exacta – Pick first two in the EXACT order
- Swinger – Pick two runners to finish in the first three in ANY order
- Trio – Pick the first three in ANY order

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.

## “DREAM”

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

Wagering revenues generated through the retail network will be increased through improvements to the customer experience, principally through provision of enhanced information through a roll-out of newly developed retail display screens and self-service terminals.

The establishment of NZ Racing Board's Class 4 gaming operation within our retail outlets (agencies and branches) will provide an incremental source of revenue to the racing industry and is therefore consistent with our profit maximisation objective.

In addition, we will continue to:

- work closely with the Racing Codes and our international agent to further distribute live racing coverage to new export markets;
- leverage iconic racing events and major sporting events in order to engage with a new customer set and increase the number of customers with betting accounts; and

- invest in Internet and mobile technologies to enhance our customer experience.

## Perceptions

Key to improving perceptions is ensuring that the conduct of racing participants is professional and complies with the respective Rules of Racing. The formation on 1 February 2011 of the Racing Integrity Unit has provided the industry with an independently managed team with a sole and dedicated focus on policing the Rules of Racing. The NZ Racing Board will resource and where appropriate assist the Racing Integrity Unit and the Judicial Control Authority in their respective functions, and support any amendments to the Rules of Racing which level the playing field, eliminates the use of prohibited drugs and substances in animals and human participants, and increases the confidence of the wagering customer.

Additionally, through promotion and management of franchised on-course events and media liaison the NZ Racing Board aims to increase on-course attendances and the positive exposure of racing in all forms of media through enhanced media relations and engagement programmes.

The NZ Racing Board will step up efforts alongside the racing Codes to expand the presence of racing in traditional mainstream and new media channels.

## Technology

With projections indicating a strong customer shift toward online and mobile wagering, we are working to make it as easy as possible for customers to access and use our products using developments in technology to engage players in ways that offer convenience and security.

The key components of the NZ Racing Board's technology development programme focus on:

- **Internet:** We are forecasting continuing, rapid growth in the Internet channel. Investment will be made in improving functionality, refreshing and updating the look and feel of our tab.co.nz channel and improving the account opening process ahead of the 2011 Rugby World Cup.
- **Mobile:** The mobile channel offers a significant opportunity for growth. Smartphones make up 19% of the current market, with predictions of a 65% share by 2013. We have launched m.tab.co.nz. This existing platform has been successful but it remains basic and incomplete. An upgrade is scheduled to be completed in time for the Rugby World Cup.
- **Self-serve terminals:** The rollout of SSTs to pubs and clubs (PubTABs) began in late-2010. To date, 450 of the 660 terminals planned for PubTABs nationwide have been installed, with the remainder scheduled to be installed and operating by October 2011. The SSTs are a significant channel focus for the Rugby World Cup. By July 2012 the plan is to have 850-plus SSTs in operation.

- **Retail screens:** PubTABS and TAB outlets and agencies are receiving new retail television screens for racing information. A sports retail screen system is currently being designed and tested. These developments will enhance the information available to customers using a new, sophisticated look.
- **Phonebet:** Our highest cost-to-serve channel, Phonebet is declining in popularity but remains a critical enabler for “traditional” and “expert” customers.

### Retail

Alongside the rolling installation of SSTs and retail screens, strategically important TAB retail outlets are undergoing a major revamp as CAPEX allows. Many sites have already been upgraded to enhance the customer’s experience of visiting a retail outlet using a modern look and feel at point-of-sale.

A key addition to the TAB’s retail footprint will be the opening of an outlet in the SkyCity complex in August 2011.

### Broadcasting

The NZ Racing Board operates two fully digital television channels, Trackside and TAB TV. The shift to a fully digital service took place in late-July 2011, ahead of the Government’s switch-off of the analogue service in 2013.

Our national radio broadcast service runs in partnership with LiveSport.

The key broadcast focus has been on the export of New Zealand racing to major overseas markets and the import of overseas racing via overseas broadcast partners. This drive for internationalisation will continue as future opportunities allow.

### Marketing

The TAB has established high visibility through various racing and sports marketing campaigns. Investment has been focused on establishing strong brand recognition and trust.

The TAB Sport brand has been developed to sit alongside the traditional TAB racing brand.

### Industry marketing and event support

The NZ Racing Board has an established on-course racing events management team to assist racing Clubs nationwide in managing and marketing major events, with the aim of:

- Increasing customer satisfaction
- Growing attendance
- Improving Club yield, especially from non-wagering revenue
- Engaging customers in racing and wagering

The programme of work includes the franchise brands “Christmas at the Races” and “Interislander Summer Festival”, promotional assistance via [www.theraces.co.nz](http://www.theraces.co.nz) and an

advertising preparation service, event resources (including marquees and ancillary equipment), attendance counting, the provision of large outdoor screens and presentations at major events, and event management expertise.

### Operational efficiency

We need to ensure our business runs smoothly and effectively and projects are underway and planned to improve operational efficiency through better leveraging of operational and capital expenditure. Where relevant we will engage with the Racing Codes to jointly determine appropriate levels and means of delivering wagering services to our customers; or in planning initiatives that improve the operational efficiency of the industry as a whole.

A review of the NZ Racing Board’s wagering system is in process with a view to enhancing the products offered and the effectiveness with which they are delivered.

## CUSTOMER SEGMENTATION

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

### Experts

This segment seeks quality information around wagering, competitive prices, effective and efficient service, new bets types and the challenge of wagering.

- 6500 customers
- Highly-skilled males
- 35-55 years old
- Bet four-six days a week
- Mainly account-driven wagering, with growing Internet bias

Our opportunities in this segment focus on our ability to compete effectively with overseas wagering/gaming operators, incentives to wager with the TAB and the offering of better service and new products.

### Traditionals

This segment seeks familiar products and surroundings, efficient transactions and an easy and reliable wagering routine.

- 200,000 customers
- 70% males aged 40-plus
- 95% racing spend
- Bet weekly
- Utilise agency, PubTAB and Phonebet channels

Our opportunities in this segment focus on expanding the TAB’s self-service offering in strategic venues, to improve service and lower the cost to serve.

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### **Moderns**

Accessibility using convenient digital channels is the focus for this segment.

- 195,000 customers
- 80% males aged under 40
- 50/50 mix of racing/sports wagering
- Bet at least monthly
- Internet channel focus

Driving interactive wagering solutions is key to developing this segment, with better leveraging of major sports and racing events.

### **Emergings**

As an event-driven segment, Emergings enjoy “taking part” using simple channels with reassurance around wagering safety.

- 270,000 customers
- Aged under 40
- 60/40 mix of racing/sports wagering
- Event-driven, for example Melbourne Cup racing carnivals, major sports events

Again, driving wagering potential around major events such as the Rugby World Cup is the imperative in this segment.

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# ORGANISATIONAL HEALTH AND CAPABILITY

## STAFF

Everyday 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. 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 over 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.

As we move into a new phase at the NZ Racing Board, which is focused on consolidation, our people are well placed to deliver an improved performance and to grow our profits.

We aim to promote the NZ Racing Board as an aspirational employer that is well regarded by prospective, current and former employees.

To do this we need to be able to attract, retain and develop an energised and engaged workforce that is committed to achieving success for the NZ Racing Board and the racing industry.

We aim to deliver effective, integrated, people-related initiatives and services that make a difference to NZ Racing Board's current and future performance.

The Human Resources business plan reflects our contribution to achieving our strategy by delivery of the following outcomes:

- Our people experience great leadership
- Our people are part of a learning organisation
- Our people are proactively equipped with the right skills and experience
- Our people are part of a passionate, proud and engaged organisation

Our key programmes of work are focused on meeting "business as usual" demands alongside:

- Building people capability and performance
- Growing engagement
- Strengthening leadership and management
- Building our reputation as trusted advisors and leaders

The NZ Racing Board's Human Resources programmes of work, core business activities and initiatives have been outlined for the next three years. The plan will be reviewed at six-

monthly periods in response to emerging people challenges and evolving business needs.

- We are operating under financial pressures and challenging growth targets and while wanting to grow the business we will focus on operational performance and effectiveness, and process improvement.
- We are undertaking a review of IT systems to provide a framework for the future of the NZ Racing Board, focusing on greater efficiencies through better systems, less duplication.
- Due to constant change many NZ Racing Board employees are change-wary, and we need to create greater capacity in our leadership and our people to handle change.
- Talented staff is becoming harder to source both within and outside of the industry. We aim to develop our internal and external talent pools and leverage the significant opportunity to position ourselves as the best employer in New Zealand to attract and retain the best people.
- Research confirms that organisations with a highly engaged workforce consistently out-perform industry peers than with a less engaged workforces.
- Current internal HR metrics/data suggest considerable opportunity for operational improvement and cost efficiencies and savings.
- Current feedback suggests we are still very silo based across the organisation and this will be addressed during the next six months.
- An interim chief executive and key changes to the makeup of Senior Executive Committee has meant more changes currently, with more to come.

## TECHNOLOGY

As our business has grown so too have the levels of complexity involved.

This has impacted on the NZ Racing Board's current technology infrastructure, which limits the ability of the organisation to develop new products and implement efficiencies.

A major technology upgrade project is currently underway, encompassing wagering systems and channels.

Core business technology and infrastructure is located at the NZ racing Board's head offices in Wellington, with disaster recovery backup infrastructure located at Ellerslie in Auckland.

# FINANCIAL SUMMARY

## Comparison Profit and Loss statement

	09/10 Actual	10/11 Forecast *	11/12 Budget	12/13 Forecast	13/14 Forecast
<b>Turnover</b>					
<b>Racing</b>					
TOTE	1,265,199,463	1,188,829,725	1,223,563,000	1,235,798,630	1,248,156,616
FOB	118,135,702	146,610,493	156,600,000	164,430,000	172,651,500
<b>Sport</b>					
TOTE	2,355,101	1,509,350	1,800,000	1,818,000	1,836,180
FOB	197,043,422	181,926,548	215,206,250	225,966,563	237,264,891
	<b>1,582,733,687</b>	<b>1,518,876,116</b>	<b>1,597,169,250</b>	<b>1,628,013,193</b>	<b>1,659,909,187</b>
<b>Gross Betting Margin</b>	<b>264,878,180</b>	<b>258,313,891</b>	<b>265,704,956</b>	<b>271,494,238</b>	<b>276,813,347</b>
<i>Gross Betting Margin</i>	16.74%	17.01%	16.68%	16.68%	16.68%
<b>Net Betting Margin</b>	<b>223,673,607</b>	<b>213,220,142</b>	<b>220,420,067</b>	<b>225,222,664</b>	<b>229,635,221</b>
<i>Net Betting Margin</i>	14.13%	14.04%	13.83%	13.83%	13.83%
Other direct Betting Revenue	13,514,796	13,286,254	12,944,792	12,944,792	12,944,792
<b>Net Betting Revenue</b>	<b>237,188,403</b>	<b>226,506,396</b>	<b>233,364,859</b>	<b>238,167,456</b>	<b>242,580,013</b>
<i>Net Betting Revenue</i>	14.99%	14.91%	14.62%	14.63%	14.61%
Cost of Goods Sold	50,910,319	47,652,328	44,840,919	44,840,919	44,840,919
<b>Gross Margin</b>	<b>186,278,084</b>	<b>178,854,068</b>	<b>188,523,940</b>	<b>193,326,537</b>	<b>197,739,094</b>
Other Operating Income	33,907,758	42,084,467	43,013,769	43,013,769	43,013,769
<b>Total Operating Income</b>	<b>220,185,843</b>	<b>220,938,535</b>	<b>231,537,709</b>	<b>236,340,306</b>	<b>240,752,863</b>
Operating Expenses	78,522,183	83,689,354	88,778,645	89,666,432	91,459,760
Depreciation	15,601,594	13,811,579	14,309,992	14,309,992	14,309,992
Interest Income	2,347,788	2,366,828	1,600,000	1,600,000	1,600,000
Interest Expenses	28,781	91,783	91,783	91,783	91,783
<b>Profit</b>	<b>128,381,074</b>	<b>125,712,647</b>	<b>129,957,290</b>	<b>133,872,100</b>	<b>136,491,328</b>
	<b>09/10 Actual</b>	<b>10/11 Forecast</b>	<b>11/12 Budget</b>	<b>12/13 Forecast</b>	<b>13/14 Forecast</b>
<b>Total Expenses</b>					
Cost of Goods Sold	50,910,319	47,652,328	44,840,919	44,840,919	44,840,919
Operating Expenses	78,522,183	83,689,354	88,778,645	89,666,432	91,459,760
Depreciation	15,601,594	13,811,579	14,309,992	14,309,992	14,309,992
	<b>145,034,096</b>	<b>145,153,261</b>	<b>147,929,555</b>	<b>148,817,342</b>	<b>150,610,670</b>
		<b>10/11 Forecast</b>	<b>11/12 Budget</b>	<b>12/13 Forecast</b>	<b>13/14 Forecast</b>
TOTE Growth %		-6%	3%	1%	1%
FOB Growth %		4%	13%	5%	5%
COGS increase/(decrease)		-6%	-6%	0%	0%
OPEX % increase/(decrease)		7%	6%	1%	2%

\* Note: 2010/11 Forecast as at January 2011

<b>Capital Expenditure</b>	
Racing Industry	
Laboratory	620,000
Racing Integrity Unit	188,500
	<u>808,500</u>
Wagering	16,191,500
	<u>17,000,000</u>
Gaming	8,000,000
	<u>25,000,000</u>

**Notes:**

1. The number of betting shops operating as a branch (NZ Racing Board employs the staff) is expected to increase to 43. There is a similar reduction in the number of agencies (an independent operator employs the staff and runs the shop). Agency remuneration is included in cost of goods sold. Branch staff costs are included in Operating expenses. This change transfers approximately \$2.9 million of cost from cost of goods sold to Operating expenses in 2011/2012.
2. New initiatives with a positive impact on 2011/2012 profit include the introduction of North American racing, new tote and fob product, and improved customer management. This activity increases operating expenses by approximately \$2.1 million.
3. Gaming CAPEX of up to \$8 million is expected to generate net proceeds in 2011/12 of \$5-6 million available for distribution to authorised purposes with racing receiving up to 80% and amateur sport 20%. This activity is separately managed by the NZ Racing Board as a Class 4 operator. As such it is not included in the profit and loss projections above for the TAB wagering business.

# 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 2011 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.

## Consolidation

The consolidated financial statements incorporate the assets

and liabilities of all entities controlled by the New Zealand Racing Board as at 31 July 2011 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 standards, applicable to the New Zealand Racing Board's annual reporting period beginning on or after 1 August 2010, have been applied from the beginning of the 2011 financial year. The initial application of these standards and amendments has had a presentation impact only on the financial results of The New Zealand Racing Board.

Amendments to NZ IFRS 7 Financial Instruments: Disclosures have expanded the disclosures required for fair value measurements and liquidity risk, including disclosure of fair value measurements in a hierarchy based on the inputs used to determine fair value.

Improvements to New Zealand equivalents to International Financial Reporting Standards (various effective dates up to reporting periods commencing on or after 1 January 2010)

The improvements are the annual updates to financial reporting standards on sundry clarification matters. The New Zealand Racing Board intends to apply these amendments from the effective dates.

## 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.

## 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 9.4% - 33.3%

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) Leased 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 16.7%

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.

**(r) 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 a non-material 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.

Early application of NZ IFRS 9 is permitted and the New Zealand Racing Board has yet to determine the date it will apply this standard.

*NZ IAS 24 Related Party Disclosures amendments (effective for reporting periods commencing on or after 1 January 2011)*

The amendments simplify the definition of a related party and provide further clarification of its intended meaning. Early application of the amendments to NZ IAS 24 is permitted. The New Zealand Racing Board intends to apply these amendments for the financial period ending 31 July 2012.

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# DIRECTORY

## NZ RACING BOARD

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## BOARD MEMBERS

Michael Stiasny – Chairman

Warren Bell

Liz Dawson

Thayne Green

Alan Jackson

Simon Moutter

Ray O'Connor

## SENIOR MANAGEMENT

Bill Colgan

**Interim Chief Executive**

Alan Barlow

**Chief Information Officer**

Glen Broomhall

**Head of Broadcasting**

David Craig

**GM Sales and Marketing**

Fleur Murray

**Head of Human Resources**

Stuart Robb

**Chief Financial Officer**

Martin Saunders

**GM Wagering, Racing and Sport**

Michael Wemyss

**Head of Risk, Legal and Audit**

