



**INTERIM
FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED
31 JANUARY**



NEW ZEALAND
RACING BOARD

CONTENTS

UPDATE FROM THE CHIEF EXECUTIVE.....	3
FINANCIAL COMMENTARY	5
INDEPENDENT REVIEW REPORT	7
CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME.....	9
CONDENSED STATEMENT OF CHANGES IN EQUITY	10
CONDENSED STATEMENT OF FINANCIAL POSITION	11
CONDENSED STATEMENT OF CASH FLOWS.....	12
CONDENSED NOTES TO THE FINANCIAL STATEMENTS.....	13



NZRB INTERIM FINANCIAL STATEMENTS 2018

UPDATE FROM THE CHIEF EXECUTIVE

The New Zealand Racing Board (NZRB) has delivered another good financial performance over the past six months as we lead the industry through a period of significant change. After delivering on our financial commitments in the 2016/17 year, underlying operating profit for the first half of 2017/18, excluding the net impact of strategic initiatives costs and benefits of \$4.4 million, was \$83.4 million, up \$2.8 million or 3.4% on last year. This positive result was underpinned by growth in customer numbers combined with ongoing disciplined cost management.

Successful customer acquisition campaigns, growth in digital channels and increased betting from high staking Elite customers has seen a growth in total revenue to \$188.1 million, up 3.2% on last year and a corresponding growth in total turnover to \$1.430 billion, up 3.9% on 2016/17.

Our rolling average monthly active account bettors grew to more than 106,000 per month over the 12 months to January 2018, up 16.4% on the previous 12 month period, and in January 2018 alone there were 112,250 active customers betting, up 19.5% on last year. The Spring customer acquisition campaign run across the second quarter delivered a massive 23,737 new customers, up 28% on target. These newly acquired customers continue to bet regularly with the TAB supported by our CRM initiatives that has contributed to the growth in Betting Turnover and Revenue.

NZRB is on track towards delivering our challenging full year underlying operating profit target of \$153.9 million in the 2017/18 year and remains committed to lifting distributions to the industry, while facing into a number of challenges. The industry continues to be plagued by an unusually high number of abandonments - 19 over the past six months (many of which occurred throughout January at Thoroughbred meetings), equating to \$1.5 million in lost profit. The cost of these abandonments is also significant to trainers, jockeys and drivers incomes and returns to owners not to mention the flow on effect to other races.

In February, NZRB along with the three racing codes launched a process to address the issues our industry faces around infrastructure - leading the development of a plan to help shape the future for New Zealand racing. We're seeking feedback from industry participants to help inform a future venue plan which will help generate maximum benefits for racing's stakeholders, participants and investors by delivering strategic investment in fit-for-purpose infrastructure and increased financial returns.

During the half year we increased our distributions to the racing industry by 11.5% or \$9.1 million on last year to \$88.2 million. This includes a portion of the \$12 million future funding increase from our strategic initiatives that has successfully led to a lift in minimum stakes across all Codes in the 2017/18 year. Our distributions to national sporting organisations also increased by \$1.0 million or 22.3% up to \$5.5 million and we distributed \$1.3 million to amateur sport from our gaming activities.

NZRB will continue to maintain a disciplined approach to cost management to enable reinvestment in digital platforms while accelerating revenue growth opportunities. In the first half of the year, underlying operating expenses were \$68.4 million, up 1.4% on last year. This small increase was driven largely by ongoing investment in the resilience of our technology platforms, a Payment Card Industry (PCI) data security standards regulatory compliance programme combined with higher merchant fees driven by customer credit card deposits. We've further reduced staff expenses, broadcasting and property costs that has mitigated some of these costs and has us on track with budget full year.

Trends for the first six months of 2017/18 include:

- Digital channels make up 59.2% of betting turnover, up 2.2 percentage points on last year, with the shift in customer preference towards digital accelerating. Digital platforms are the fastest growing channels with turnover of \$658.9 million, up 10.5% on last year.
- The Mobile App remains the fastest growing customer touch point, up 18.4% or \$12.3 million on 2016/17.
- Fixed odds betting across racing and sport continues to drive growth, up 11.6% and 9.1% on last year respectively. The rate of Tote decline is slowing to -4.6%, driven by the shift in customer preference.
- VIP turnover is down 19.2% or \$13.9 million on last year, however this was expected due to the rebate restrictions imposed under the new terms of international wagering agreements with Tabcorp.

UPDATE FROM THE CHIEF EXECUTIVE (CONTINUED)

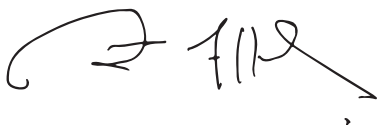
STRATEGIC INITIATIVES

NZRB has made good progress on delivering our key strategic initiatives and major projects in the first half of 2017/18, which will, once fully implemented lift annualised net profit to around \$200 million.

- The introduction of Racefields legislation received strong Parliamentary support following its first reading in Government in August 2017 and its continued progress in conjunction with the Department of Internal Affairs is a key priority.
- The implementation of our new Fixed Odds Betting Platform (FOB) is progressing and targeting customer launch early in the 2018/19 season that will significantly increase the number of betting options and markets we offer to our customers daily while also improving margin preference.
- The Customer and Channels programme is delivering strong growth in customer numbers through integrated customer acquisition campaigns and improved channel experiences for customers across our website, Mobile App and TAB retail network.
- Optimise the Calendar - approved changes to the 2017/18 Racing Calendar to optimise betting revenue have delivered positive financial results and we will look for further intensification in the 2018/19 calendar in collaboration with the codes and clubs. Industry feedback has been sought to support the development of a future venue plan later this year.
- Vision Capture - phase one of this project relating to how we capture racing vision and relay this to our customers has been successfully implemented. This saw Greyhound racing go High Definition for improved customer viewing, as well as moving to a centralised production model with a purpose-built fixed control room, providing cost efficiencies. Phase two will be focused on the equine codes and development of a Content Distribution Strategy.

Since I took over as CEO of NZRB in 2015 my team and I have been making steady progress on addressing key issues facing both the organisation and broader industry including modernising our aging technology infrastructure, driving growth in revenue whilst maintaining a disciplined approach to cost management, building business continuity capability and importantly ensuring that funding to the industry can be sustainably increased year on year.

We have a talented and passionate team in place, a clear direction and we are focussed on leading the industry through a period of significant change to ensure racing remains relevant and its future secure.



John Allen

Chief Executive Officer
New Zealand Racing Board

NZRB INTERIM FINANCIAL STATEMENTS 2018

FINANCIAL COMMENTARY FOR THE SIX MONTHS ENDED 31 JANUARY 2018

The New Zealand Racing Board (NZRB) achieved a reported net profit of \$79.0 million for the first half of the year, \$1.1 million (-1.4%) below last year. Excluding strategic initiatives, underlying operating profit was \$83.4 million \$2.8 million (+3.4%) ahead of last year and \$2.1 million (+2.6%) ahead of budget.

CURRENT PERIOD FINANCIAL PERFORMANCE AGAINST PRIOR PERIOD AND BUDGET

	UNAUDITED		
	ACTUAL 31 JANUARY 2018 \$'000	ACTUAL 31 JANUARY 2017 \$'000	BUDGET 31 JANUARY 2018 \$'000
Betting and gaming turnover	1,430.0	1,376.0	1,458.8
Total Revenue	188.1	182.3	188.6
Net profit before distributions	79.0	80.1	76.1
Strategic initiatives (net benefits and costs) and other costs	4.4	0.6	5.2
Underlying operating profit before distributions	83.4	80.7	81.3
Total group distributions	84.8	76.5	79.1

For more details, the reconciliation between the reported net profit before distributions and the underlying profit before distributions is found in Note 2 of the Financial Statements on page 16.

BETTING AND GAMING TURNOVER

Overall turnover was \$54.0 million (+3.9%) ahead of last year driven by growth in betting turnover of \$39.0 million (+3.4%) at \$1,195 million and Gaming turnover of \$15.0 million (+6.8%) at \$235.0 million.

Fixed odds betting turnover continues to perform strongly at \$63.9 million (+10.4%) ahead of last year with racing FOB and sports FOB up by 11.6% and 9.1%, respectively. This is partially offset by the decline in racing tote (-4.6%) driven by the ongoing shift in customer preference. The increase in betting turnover has been driven by a combination of strong customer acquisition and growth in digital channels supported by successful marketing campaigns covering the Melbourne Cup, NZ Cup & Show Week and the Summer Festival and improved digital product offerings. While year on year performance increased significantly, total turnover was below budget by \$28.8 million (-2.0%) driven in part by a significant number of abandonments (19) during the period, particularly in thoroughbred races, that was up on last year.

VIP Turnover is down -19.2% (-\$13.9 million) on last year as a result of TabCorp commingling restrictions into Australian hosted pools that were imposed last year.

Gaming turnover continues to perform well following the opening of a new TAB venue in Greerton during the period and full year impact of refurbished venues that are performing ahead of expectations. The investment in gaming machine upgrades has also contributed positively.

REVENUE

Total revenue was \$188.1 million for the first half of the 2018 financial year, \$5.8 million (+3.2%) ahead of last year. The strong turnover performance had a flow-on effect on revenue compared to last year. Compared to budget, however, the higher number of abandoned races had a negative impact of \$0.5 million.

Net betting revenue amounts to \$151.1 million, ahead of last year by \$5.6 million (+3.8%) as a result of strong turnover with net betting margin remaining constant at 12.6% including an adverse impact from VIP betting.

Net gaming revenue was \$0.7 million (+5.6%) ahead of last year at \$13.3 million driven by turnover growth, notwithstanding temporary closures following key gaming room refurbishments, with net gaming margin remaining constant at 5.7%.

New Zealand racing shown overseas revenue also maintained an upward trend following the renegotiation agreement with TabCorp and increased slightly by \$0.2 million (+1.8%) on last year to \$11.1 million despite the higher number of domestic racing abandonments that impacted performance against budget by \$0.5 million (-2.7%).

Other revenue was \$12.6 million, \$0.7 million (-5.1%) below last year. This was mainly driven by lower advertising and events revenue (-\$0.7 million) resulting from the transfer of the Events, Marketing & Logistics operations to The Races Partnership Limited, broadcasting income (-\$0.3 million) and interest revenue (-\$0.2 million) on cash and term deposit balances. These are partly offset by an uplift in merchant fee and racing services revenues (+\$0.4 million).

NZRB INTERIM FINANCIAL STATEMENTS 2018

FINANCIAL COMMENTARY FOR THE SIX MONTHS ENDED 31 JANUARY 2018

EXPENSES

Underlying turnover related expenses were \$34.4 million or \$0.3 million (+0.8%) higher than the same period last year and \$1.6 million below budget. Including the investments in Customer & Channels strategy of \$1.8 million relating to customer acquisition campaigns and improvements in channel experiences across website, mobile app and TAB Retail network, reported turnover related expenses were \$2.1 million (+6.1%) above last year. National sporting organisation (NSO) commissions also contributed to this increase by \$1.0 million (+22.3%) following the contribution to the strategic fund with Sport New Zealand as well as the increase in sports turnover. While overseas racing rights (\$0.3 million) and commingling fees (\$0.3 million) slightly increased during the year as a result of the TabCorp negotiations and increased commingled turnover, savings were realised across other categories such as advertising & promotions (\$0.6 million), publications (\$0.4 million) and retail fees (\$0.1 million).

Turnover related costs were below budget by \$1.6 million (-4.2%) due to less than anticipated advertising costs (\$0.9 million) and NSO levies (\$0.7 million) resulting from sport turnover being less than anticipated, particularly in-play betting.

Underlying operating expenses of \$68.4 million, excluding strategic initiatives and other costs, were \$1.0 million (+1.4%) ahead of last year and \$0.9 million below budget. Including the impact of investments in strategic initiatives of \$4.4 million incurred during the year, reported operating expenses were \$4.8 million (+7.0%) above last year. This was mainly driven by ongoing investment in the resilience of NZRB's technology platforms (\$0.9 million), higher depreciation costs (\$0.5 million) relating to the investment in the vision capture project; consultancy expenditure (\$0.6 million) relating to the PCI compliance programme and merchant fees (\$0.3 million) due to an increase in credit card customer deposits.

Savings have been realised in staff expenses which were down by \$1.4 million (-4.3%) (excluding impact of strategic initiatives of \$1.2 million), property costs and broadcasting expenses (\$0.4 million) that are all tracking below last year. These savings continue to reflect that cost management remains a key priority.

NET PROFIT

Reported net profit was \$79.0 million, \$1.1 million (-1.4%) below last year and \$2.9 million (3.8%) above budget including planned investment in the strategic initiatives that totalled \$4.4 million. The underlying operating profit was however \$2.8 million (+3.4%) ahead of last year.

During the year, total distributions to the racing industry and sporting community organisations increased by \$8.3 million (+10.8%) compared to last year. This includes the additional betting distributions to the racing codes of \$6.8 million and gaming distributions of \$2.3 million to the racing industry and sporting community organisations, partly offset by \$0.8 million gaming distributions retained for future initiatives.

CURRENT PERIOD FINANCIAL POSITION AGAINST PRIOR PERIOD

Cash and term deposit balances, after excluding those relating to Betting Accounts and Vouchers Trust, have decreased by \$18.7 million (-48.0%) to \$20.3 million since July 2017. Notwithstanding the strong underlying operating profit result, the net cash position declined due to the significant project investments in Fixed Odds Betting, Customer & Channel and Optimise the Calendar undertaken during the year combined with the additional industry distributions made to the three racing codes aimed at supporting a lift in stakes money.

Total assets balance has decreased by \$5.3 million (-3.9%) from July 2017, to \$131.4 million which is a function of the significant capex spend in fixed and intangible assets as part of the strategic initiatives that has increased assets by \$13.4 million (+25.1%) combined with the additional racing industry distributions that has been funded from cash reserves.

Total liabilities have increased by \$2.6 million (+3.9%) since July 2017 driven mainly by an increase in trade payables of \$3.7 million relating to project spend and higher balance of undistributed gaming surplus provisions of \$1.1 million and taxes payable of \$0.8 million. These were offset in part by a decrease in unpaid dividends of \$1.7 million and customers' betting account balances of \$1.3 million.

Overall, total equity is \$61.4 million as at 31 January 2018, decreasing by \$7.9 million (-11.4%) since July 2017 due to investment in strategic initiatives (\$22.0 million) combined with the additional distributions of \$8.3 million. Both of these outlays have been approved by the NZRB Board and funded from available cash reserves therefore reducing NZRB's overall equity position.



Independent Review report

to the Board Members of the New Zealand Racing Board

Report on the interim financial statements

We have reviewed the accompanying interim financial statements of the New Zealand Racing Board and the entities it controlled (together “the Group”) on pages 6 to 18, which comprise the condensed statement of financial position as at 31 January 2018, and the condensed statement of profit or loss and other comprehensive income, the condensed statement of changes in equity and the condensed statement of cash flows for the period ended on that date, and selected explanatory notes.

Board Members’ responsibility for the interim financial statements

The Board members are responsible on behalf of the Group for the preparation and presentation of these interim financial statements in accordance with International Accounting Standard 34 Interim Financial Reporting (IAS 34) and New Zealand Equivalent to International Accounting Standard 34 Interim Financial Reporting (NZ IAS 34) and for such internal controls as the Board members determine are necessary to enable the preparation of interim financial statements that are free from material misstatement, whether due to fraud or error.

Our responsibility

Our responsibility is to express a conclusion on the accompanying interim financial statements based on our review. We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* (NZ SRE 2410). NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the interim financial statements, taken as a whole, are not prepared in all material respects, in accordance with IAS 34 and NZ IAS 34. As the auditors of the Company, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of interim financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. Accordingly, we do not express an audit opinion on these interim financial statements.

We are independent of the Group. Our firm carries out other services for the Group in the areas of treasury advisory services. The provision of these other services has not impaired our independence.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that these interim financial statements of the Group are not prepared, in all material respects, in accordance with IAS 34 and NZ IAS 34.



Who we report to

This report is made solely to the Board members of the New Zealand Racing Board, as a body. Our review work has been undertaken so that we might state to the Board members those matters which we are required to state to them in our review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Board Members of the New Zealand Racing Board, as a body, for our review procedures, for this report, or for the conclusion we have formed.

For and on behalf of:

A stylized, handwritten-style signature of 'PricewaterhouseCoopers' in black ink.

Chartered Accountants
28 March 2018

Wellington

NZRB INTERIM FINANCIAL STATEMENTS 2018

CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 31 JANUARY 2018

		UNAUDITED	
	NOTE	31 JANUARY 2018 \$000	31 JANUARY 2017 \$000
Betting and gaming turnover	5a	1,430,037	1,376,015
REVENUE			
Net betting revenue	5b	151,057	145,485
Net gaming revenue	5c	13,298	12,590
NZ racing shown overseas revenue		11,146	10,950
Other revenue	6	12,584	13,255
TOTAL REVENUE		188,085	182,280
TURNOVER RELATED EXPENSES	7	36,259	34,166
PROFIT CONTRIBUTION		151,826	148,114
OPERATING EXPENSES			
Broadcasting expenses		4,718	4,882
Communication and technology expenses	8	10,303	8,579
Premises and equipment expenses	9	7,442	7,513
Staff expenses	10	31,780	32,069
Depreciation and amortisation		10,334	7,885
Foreign exchange gain		24	61
Other operating expenses	11	8,216	7,070
TOTAL OPERATING EXPENSES		72,817	68,059
NET PROFIT BEFORE DISTRIBUTIONS		79,009	80,055
Distributions	4	84,798	76,505
Provisions for undistributed gaming surplus		2,668	1,701
NET (LOSS)/PROFIT AFTER DISTRIBUTIONS		(8,457)	1,849
OTHER COMPREHENSIVE INCOME			
Movement in fair value of cash flow hedges *		559	(138)
TOTAL OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR		(7,898)	1,711
TOTAL OTHER COMPREHENSIVE (LOSS)/INCOME ATTRIBUTABLE TO:			
NZ Racing Board reserves		(7,921)	1,585
Non-controlling interests in Racing Integrity Unit Limited		23	126
		(7,898)	1,711

* Items of other comprehensive income may be reclassified to profit or loss.

NZRB INTERIM FINANCIAL STATEMENTS 2018

CONDENSED STATEMENT OF CHANGES IN EQUITY *FOR THE SIX MONTHS ENDED 31 JANUARY 2018*

	UNAUDITED			
	General reserve	Hedging reserve	Non-controlling interests in RIU	TOTAL GROUP EQUITY
	\$000	\$000	\$000	\$000
Balance as at 1 August 2016	73,047	489	233	73,769
Net profit after distributions	1,723	-	126	1,849
Other comprehensive loss	-	(138)	-	(138)
Balance as at 31 January 2017	74,770	351	359	75,480
Balance as at 1 August 2017	69,306	(218)	220	69,308
Net (loss)/profit after distributions	(8,480)	-	23	(8,457)
Other comprehensive profit	-	559	-	559
Balance as at 31 January 2018	60,826	341	243	61,410

NZRB INTERIM FINANCIAL STATEMENTS 2018

CONDENSED STATEMENT OF FINANCIAL POSITION AS AT 31 JANUARY 2018

		UNAUDITED	AUDITED
	NOTE	31 JANUARY 2018 \$000	31 JULY 2017 \$000
CURRENT ASSETS			
Cash and cash equivalents		21,277	29,017
Derivative assets		288	-
Trade and other receivables		9,587	9,071
Non-current assets held for sale		-	1,220
Other financial assets	13	25,000	37,000
Other current assets		2,427	1,498
TOTAL CURRENT ASSETS		58,579	77,806
NON-CURRENT ASSETS			
Property, plant and equipment		41,156	39,284
Intangible assets (including software assets)		25,462	13,983
Other financial assets	13	4,016	3,003
Other non-current assets		2,160	2,596
TOTAL NON-CURRENT ASSETS		72,794	58,866
TOTAL ASSETS		131,373	136,672
CURRENT LIABILITIES			
Trade and other payables		30,475	26,744
Current liabilities held for sale		-	61
Customer betting account deposits and vouchers		23,433	24,779
Other financial liabilities		4,038	5,232
Derivative liabilities		-	214
Taxation payable		4,962	4,199
Provisions		2,893	2,372
TOTAL CURRENT LIABILITIES		65,801	63,601
NON-CURRENT LIABILITIES			
Other financial liabilities		2,539	2,711
Provisions		1,623	1,052
TOTAL NON-CURRENT LIABILITIES		4,162	3,763
TOTAL LIABILITIES		69,963	67,364
TOTAL EQUITY		61,410	69,308
TOTAL LIABILITIES AND EQUITY		131,373	136,672

The Board members of the New Zealand Racing Board authorised these interim financial statements for issue on 28 March 2018.



Glenda Hughes
Chair of the New Zealand Racing Board



Alistair Ryan
Chair of the Audit and Risk Committee
of the New Zealand Racing Board

NZRB INTERIM FINANCIAL STATEMENTS 2018

CONDENSED STATEMENT OF CASH FLOWS *FOR THE SIX MONTHS ENDED 31 JANUARY 2018*

	UNAUDITED	
	31 JANUARY 2018 \$000	31 JANUARY 2017 \$000
CASH FLOWS FROM OPERATING ACTIVITIES		
INFLOWS		
Betting and gaming turnover	1,430,121	1,375,216
NZ racing shown overseas revenue	10,519	10,634
Other revenue	13,731	9,609
TOTAL INFLOWS FROM OPERATING ACTIVITIES	1,454,371	1,395,459
OUTFLOWS		
Betting and gaming dividends paid	(1,225,123)	(1,178,891)
Betting and gaming duty paid	(12,659)	(11,999)
Goods and services tax (net)	(26,802)	(26,085)
Jackpot retentions and account deposits (net)	(3,097)	(1,284)
National sporting organisations	(5,110)	(4,855)
Payments for employee benefits including termination payments	(31,066)	(33,083)
Payments to suppliers	(66,611)	(58,029)
TOTAL OUTFLOWS FROM OPERATING ACTIVITIES	(1,370,468)	(1,314,226)
NET CASH PROVIDED BY OPERATING FACILITIES	83,903	81,233
CASH FLOWS FROM INVESTING ACTIVITIES		
INFLOWS		
Interest received	1,030	1,344
Repayment of industry loans	249	-
Repayment of short-term deposits	15,000	-
TOTAL INFLOWS FROM INVESTING ACTIVITIES	16,279	1,344
OUTFLOWS		
Investment of short-term deposits	(3,000)	(7,500)
Purchases of intangible assets	(16,043)	(1,992)
Purchases of property, plant and equipment	(3,916)	(1,105)
TOTAL OUTFLOWS FROM INVESTING ACTIVITIES	(22,959)	(10,597)
NET CASH USED IN INVESTING ACTIVITIES	(6,680)	(9,253)
CASH FLOWS FROM FINANCING ACTIVITIES		
OUTFLOWS		
Interest paid	(138)	(283)
Distributions to the racing codes	(77,736)	(71,210)
Distributions to the racing industry	(1,820)	-
Gaming distributions to the racing industry	(4,151)	(3,096)
Gaming distribution to external bodies	(1,266)	(1,569)
Repayment of finance lease	(156)	(156)
TOTAL OUTFLOWS FROM FINANCING ACTIVITIES	(85,267)	(76,314)
NET CASH USED IN FINANCING ACTIVITIES	(85,267)	(76,314)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(8,044)	(4,334)
Cash and cash equivalents as at the beginning of the period	29,017	30,807
Foreign exchange loss on cash and cash equivalents	304	(127)
CASH AND CASH EQUIVALENTS AS AT THE END OF THE PERIOD	21,277	26,346

NZRB INTERIM FINANCIAL STATEMENTS 2018

CONDENSED NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 JANUARY 2018

The purpose of these interim financial statements is to report on the financial performance for the six months ended 31 January 2018. Additionally, these financial statements report on transactions and events that are significant in gaining an understanding of the changes in financial position and performance of NZRB since NZRB's previous year end, 31 July 2017. Accordingly, it focusses on new actions, events and circumstances and does not duplicate information previously reported in NZRB's financial statements for the year ended 31 July 2017.

The notes to the financial statements include information which is required to understand the financial statements and information that is material and relevant to the financial performance, financial position and operations of NZRB.

The notes to the financial statements are organised into the following sections:

Basis of preparation: sets out the accounting policies that relate to the financial statements as a whole.

Internal reporting: provides information about how the key numbers of NZRB are reported internally.

Key numbers: provides a breakdown of NZRB's financial performance. This section highlights the link between the income derived and the return provided to NZRB's stakeholders.

Other: provides some additional information required to understand these financial statements.

INDEX

Who is NZRB and what was the basis of financial statement preparation?

Note 1 - Basis of preparation 14

How were the results of the Group reported internally?

Note 2 - Underlying operating profit reconciliation 16

Note 3 - Operating segments 18

Key numbers: What was the return to NZRB's stakeholders?

Note 4 - Distributions 19

Key numbers: Where did NZRB's revenue come from?

Note 5 - Revenue 21

Note 6 - Other revenue 21

Key numbers: What costs were incurred in deriving this income?

Note 7 - Turnover related expenses 22

Note 8 - Communication and technology expenses 22

Note 9 - Premises and equipment expenses 22

Note 10 - Staff expenses 22

Note 11 - Other operating expenses 23

Note 12 - Related parties 23

Other

Note 13 - Other financial assets 24

Note 14 - Subsequent events 24

NZRB INTERIM FINANCIAL STATEMENTS 2018

CONDENSED NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 JANUARY 2018 (CONTINUED)

Who is NZRB and what was the basis of financial statement preparation?

1. BASIS OF PREPARATION

REPORTING ENTITY AND STATUTORY BASE

The New Zealand Racing Board (NZRB) is a statutory body established by the Racing Act 2003 and is required to prepare financial statements that comply with Generally Accepted Accounting Principles in New Zealand (NZ GAAP) as defined under the Financial Reporting Act 2013.

NZRB is domiciled in New Zealand.

The financial statements presented are for NZRB and its subsidiaries, the Racing Integrity Unit Limited (RIU) and the Betting Accounts and Betting Vouchers Trust (collectively the Group).

STATEMENT OF COMPLIANCE

These consolidated Group interim financial statements comply with International Accounting Standards and NZ IAS 34 'Interim Financial Reporting'.

These unaudited statements do not include all the disclosures required for full annual financial statements prepared in accordance with NZ IFRS and should be read in conjunction with the financial statements and related notes included in NZRB's financial statements for the year ended 31 July 2017.

BASIS OF MEASUREMENT

These financial statements have been prepared on the historical cost basis. The Group financial statements are presented in New Zealand dollars (\$) (the presentation currency), which is NZRB's functional currency.

CHANGES IN ACCOUNTING POLICIES

There have been no changes in accounting policies during the six months ended 31 January 2018. All the accounting policies have been applied consistently throughout the period and are the same as those used in the financial statements for the year ended 31 July 2017.

1. BASIS OF PREPARATION (CONTINUED)

NEW STANDARDS AND INTERPRETATIONS ISSUED

The financial statements have been drawn up on the basis of accounting standards, interpretations and amendments effective at the beginning of the accounting period on 1 August 2017.

At the date of authorisation, the following new standards, amendments to or interpretations of existing standards were in issue but not yet effective.

- **NZ IFRS 9 *Financial instruments*** was issued in September 2014 as a complete version of the standard. NZ IFRS 9 replaces NZ IAS 39 (and other previous versions of NZ IFRS 9) that relates to the three aspects of financial instruments accounting: classification and measurement, impairment and hedge accounting.

Based on management assessment, NZ IFRS9 will not have a significant impact to NZRB. NZ IFRS 9 is effective for reporting periods beginning on or after 1 January 2018 and NZRB will adopt this standard from 1 August 2018. The changes resulting from NZ IFRS 9 will be disclosed in the financial statements ending 31 July 2019.

- **NZ IFRS 15 *Revenue from contracts with customers*** replaces the current revenue recognition guidance under NZ IAS 18, "Revenue" and NZ IAS 11, "Construction contracts" and is applicable to all entities with revenue. It sets out a five step model for revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The Group has undertaken an assessment to measure the impact of the new standard and has concluded that the impact to NZRB is minimal. NZRB will apply this standard from 1 August 2018 and any changes resulting from the adoption of NZ IFRS 15 will be reflected in the financial statements ending 31 July 2019.

- **NZ IFRS 16 *Leases*** replaces NZ IAS 17 Leases. IFRS 16 eliminates the classification of leases as either operating or finance for lessees and, instead, introduces a single lessee accounting model. This model requires lessees to account for all of their leases in a manner similar to how finance leases were treated applying NZ IAS 17. This will result in the recognition of (a) a lease asset and lease liability in the statement of financial position; (b) depreciation of lease assets and financing costs on the lease liability in profit or loss; and (c) present the amount of cash paid for the principal portion of the lease liability within financing activities. Lessor accounting is broadly unchanged compared to NZ IAS 17. NZ IFRS 16 is effective for reporting periods beginning on or after 1 January 2019 and NZRB will adopt this standard from 1 August 2019.

NZRB has undertaken a high level assessment of NZ IFRS 16's impact and concluded that, given the significant lease properties of NZRB, the new standard will have a significant impact on the balance sheet position and financial performance of the Group. A further in depth assessment is currently being undertaken to further quantify the impact to the financial statements (including measurement, presentation and disclosure requirements) and to the organisation overall. The full impact will be reflected in the financial statements ending 31 July 2020.

The above assessments performed by management are yet to be audited.

NZRB INTERIM FINANCIAL STATEMENTS 2018

CONDENSED NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 JANUARY 2018 (CONTINUED)

How were the results of NZRB reported internally?

2. UNDERLYING OPERATING PROFIT RECONCILIATION

This note represents NZRB's underlying operating profit which separately shows the impact of NZRB's strategic initiative activities. Costs associated with these activities are reported in this note in order to better demonstrate NZRB's operating performance in a meaningful and transparent manner to all users of these financial statements including those who use non-GAAP financial information.

The strategic initiatives undertaken in 2018 included:

- **Fixed Odds Betting** - NZRB appointed FOB partners OpenBet and Paddy Power Betfair in December 2016. Development / implementation commenced in June 2017 and as at 31 January 2018 is well advanced.
- **Racefields legislation** - has been introduced into Parliament and had its first reading before the House rose for the 2017 election; as at 31 January 2018 this is under consideration at the Select Committee (Primary Production), with report due to the House in March 2018.
- **Customer & Channels Programme** - since inception, the programme has relaunched the TAB brand, established new Retail TAB concept venues, rolled-out digital Identity Verification and Elite customer portal and delivered Mobile App releases. Retail network plan has also been developed with venue realignment underway across TAB venues, Pub and Club TABs. Overall, this has resulted in significant customer growth and is on-track to enable for further customer acquisition.
- **Optimise the Calendar** - approved changes to the Racing Calendar to optimise betting revenue initially delivered positive results that have been incorporated into the 2017/18 racing season; engagement with the industry has commenced to develop a national venue plan.

31 JANUARY 2018

	Reported Net Profit	Strategic Initiatives net benefits and costs and Other costs	Underlying Operating Profit
Note	\$000	\$000	\$000
PROFIT CONTRIBUTION - INCLUDING STRATEGIC INITIATIVES	151,826	-	151,826
Strategic initiative - benefit	-	1,800	1,800
Strategic initiative - turnover related expenses	-	(1,822)	(1,822)
OPERATING EXPENSES			
Broadcasting expenses	4,718	-	4,718
Communication and technology expenses	10,303	(812)	9,491
Premises and equipment expenses	7,442	(125)	7,317
Staff expenses	31,780	(1,253)	30,527
Depreciation and amortisation	10,334	(1,926)	8,408
Foreign exchange gain	24	-	24
Other operating expenses	8,216	(300)	7,916
TOTAL OPERATING EXPENSES	72,817	(4,416)	68,401
UNDERLYING OPERATING PROFIT BEFORE DISTRIBUTIONS	79,009	4,438	83,447

NZRB INTERIM FINANCIAL STATEMENTS 2018

CONDENSED NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 JANUARY 2018 (CONTINUED)

31 JANUARY 2017

	Note	Reported Net Profit	Strategic Initiatives net benefits and costs and Other costs	Underlying Operating Profit
		\$000	\$000	\$000
PROFIT CONTRIBUTION - INCLUDING STRATEGIC INITIATIVES		148,114	-	148,114
Strategic initiative - benefit		-	-	-
Strategic initiative - turnover related expenses		-	-	-
OPERATING EXPENSES				
Broadcasting expenses		4,882	-	4,882
Communication and technology expenses		8,579	-	8,579
Premises and equipment expenses		7,513	-	7,513
Staff expenses		32,069	(160)	31,909
Depreciation and amortisation		7,885	-	7,885
Foreign exchange gain		61	-	61
Other operating expenses		7,070	(472)	6,598
TOTAL OPERATING EXPENSES		68,059	(632)	67,427
UNDERLYING OPERATING PROFIT BEFORE DISTRIBUTIONS		80,055	632	80,687

NZRB INTERIM FINANCIAL STATEMENTS 2018

CONDENSED NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 JANUARY 2018 (CONTINUED)

3. OPERATING SEGMENTS

The following is an analysis of the Group's profit by reportable segments. There have been no changes in the nature of operating segments since 31 July 2017.

	UNAUDITED			
	Betting	Gaming	RIU	Total
	\$000	\$000	\$000	\$000
31 JANUARY 2018				
NET PROFIT BEFORE DISTRIBUTIONS	73,312	8,806	(3,109)	79,009
Less distributions	(81,800)	(6,138)	3,140	(84,798)
Less provision for undistributed Gaming net profit	-	(2,668)	-	(2,668)
NET (LOSS) / PROFIT AFTER DISTRIBUTIONS	(8,488)	-	31	(8,457)

	UNAUDITED			
	Betting	Gaming	RIU	Total
	\$000	\$000	\$000	\$000
31 JANUARY 2017				
NET PROFIT BEFORE DISTRIBUTIONS	74,906	7,998	(2,849)	80,055
Less distributions	(73,225)	(6,297)	3,017	(76,505)
Less provision for undistributed Gaming net profit	-	(1,701)	-	(1,701)
NET PROFIT AFTER DISTRIBUTIONS	1,681	-	168	1,849

NZRB INTERIM FINANCIAL STATEMENTS 2018

CONDENSED NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 JANUARY 2018 (CONTINUED)

NZRB distributes almost all of its net profit to the Racing Industry and Sporting Community Organisations. This section focuses on the net profit of NZRB that enabled this return to its stakeholders. Starting with a breakdown of total distributions, on the following pages you will find a breakdown of individual line items recognised in the Condensed Statement of Profit or Loss and Other Comprehensive Income.

Key Numbers: What was the return to NZRB's stakeholders?

4. DISTRIBUTIONS

31 JANUARY 2018	UNAUDITED			TOTAL \$000
	Betting	Gaming	Undistributed Gaming net profit from 31 July 2017	
	\$000	\$000	\$000	
DISTRIBUTIONS TO THE RACING INDUSTRY				
Code funding	79,980	-	-	79,980
Judicial Control Authority	-	575	230	805
Racing Integrity Unit	-	2,617	523	3,140
Racing Laboratory Services	-	780	162	942
The Races Partnership Limited	1,820	321	134	2,275
Other application of funds from Gaming operations				
Infrastructure development	-	-	108	108
Stakes enhancement	-	204	122	326
Race form publications	-	289	271	560
Youth recruitment	-	86	18	104
TOTAL DISTRIBUTIONS TO THE RACING INDUSTRY	81,800	4,872	1,568	88,240
Distributions (grants) to Sporting Community Organisations				
Sports Authorised Purposes (paid and payable)	-	1,266	-	1,266
TOTAL DISTRIBUTIONS (GRANTS) TO SPORTING COMMUNITY ORGANISATIONS	-	1,266	-	1,266
Reversal of prior year provision for undistributed net profit	-	-	(1,568)	(1,568)
TOTAL DISTRIBUTIONS FROM NZRB PARENT	81,800	6,138	-	87,938
Distributions to RIU - eliminated on consolidation	-	(3,140)	-	(3,140)
TOTAL DISTRIBUTIONS FROM GROUP	81,800	2,998	-	84,798

On 1 August 2017 the Events, Marketing & Logistics operations were transferred to The Races Limited Partnership, which is a limited liability partnership between New Zealand Thoroughbred Racing, Harness Racing New Zealand and The Races Limited.

NZRB INTERIM FINANCIAL STATEMENTS 2018

CONDENSED NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 JANUARY 2018 (CONTINUED)

31 JANUARY 2017	UNAUDITED			TOTAL
	Betting	Gaming	Undistributed Gaming net profit from 31 July 2016	
	\$000	\$000	\$000	
DISTRIBUTIONS TO THE RACING INDUSTRY				
Code funding	73,225	-	-	73,225
Judicial Control Authority	-	546	104	650
Racing Integrity Unit	-	2,647	370	3,017
Racing Laboratory Services	-	782	150	932
Other application of funds from Gaming operations				
Events, Marketing and Logistics	-	507	-	507
Infrastructure development	-	20	-	20
Race form publications	-	793	-	793
TOTAL DISTRIBUTIONS TO THE RACING INDUSTRY	73,225	5,295	624	79,144
Distributions (grants) to Sporting Community Organisations				
Sports Authorised Purposes (paid and payable)	-	1,002	150	1,152
TOTAL DISTRIBUTIONS (GRANTS) TO SPORTING COMMUNITY ORGANISATIONS	-	1,002	150	1,152
Reversal of prior year provision for undistributed net profit	-	-	(774)	(774)
TOTAL DISTRIBUTIONS FROM NZRB PARENT	73,225	6,297	-	79,522
Distributions to RIU - eliminated on consolidation	-	(3,017)	-	(3,017)
TOTAL DISTRIBUTIONS FROM GROUP	73,225	3,280	-	76,505

NZRB INTERIM FINANCIAL STATEMENTS 2018

CONDENSED NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 JANUARY 2018 (CONTINUED)

Key Numbers: Where did NZRB's revenue come from?

5. REVENUE

5a. TURNOVER (including GST)

Betting turnover - racing totalisator

Betting turnover - racing fixed odds

Total betting turnover - racing

Betting turnover - sports fixed odds

Total betting turnover - sports

Total betting turnover

Gaming turnover

TOTAL BETTING AND GAMING TURNOVER

5b. NET BETTING REVENUE

Total betting turnover

Less: dividends paid and payable

Gross betting revenue

Betting duty

GST

Problem gambling levy

NET BETTING REVENUE

5c. NET GAMING REVENUE

Gaming turnover

Less: dividends paid and payable

Gross gaming revenue

Gaming machine duty

GST

Problem gambling levy

NET GAMING REVENUE

UNAUDITED	
31 JANUARY 2018 \$000	31 JANUARY 2017 \$000
519,033	543,918
374,388	335,582
893,421	879,500
301,590	276,492
301,590	276,492
1,195,011	1,155,992
235,026	220,023
1,430,037	1,376,015
1,195,011	1,155,992
(1,010,912)	(978,671)
184,099	177,321
(7,298)	(6,968)
(24,783)	(23,949)
(961)	(919)
151,057	145,485
235,026	220,023
(214,771)	(200,848)
20,255	19,175
(4,051)	(3,835)
(2,642)	(2,501)
(264)	(249)
13,298	12,590

6. OTHER REVENUE

Interest

(Loss) on disposal of property, plant and equipment

Merchant fee revenue

Racing services

Revenue from broadcasting within New Zealand

Other revenue

TOTAL OTHER REVENUE

UNAUDITED	
31 JANUARY 2018 \$000	31 JANUARY 2017 \$000
730	931
(26)	(2)
2,220	1,909
7,224	7,092
440	355
1,996	2,970
12,584	13,255

Decrease in other revenue is mainly due to a reduction in EML related recoveries from racing clubs as a result of the transfer of EML to The Races Partnership Limited.

NZRB INTERIM FINANCIAL STATEMENTS 2018

CONDENSED NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 JANUARY 2018 (CONTINUED)

Key Numbers: What costs were incurred in deriving this revenue?

7. TURNOVER RELATED EXPENSES

	UNAUDITED	
	31 JANUARY 2018 \$000	31 JANUARY 2017 \$000
Advertising and promotions*	4,664	3,394
Commingling fee	899	564
National sporting organisations	5,461	4,466
Overseas racing rights	14,742	14,437
Retail fees	8,122	8,244
Race form publications	1,140	1,730
Less: race form publications recovered from Gaming**	(560)	(793)
Other turnover related expenses	1,791	2,124
TOTAL TURNOVER RELATED EXPENSES	36,259	34,166

* Included within the 2018 turnover related expenses was \$1.8 million in relation to the strategic initiatives. Refer to Note 2.

** Race form publications recovered from Gaming relates to the application of funds from Gaming to reimburse certain race form publication expenses under its Racing Authorised Purpose. Refer to Note 4.

8. COMMUNICATION AND TECHNOLOGY EXPENSES

Communication and technology expenses include the new IT managed service agreement relating to the Optimus programme of \$6.3 million (2017: \$4.9 million).

9. PREMISES AND EQUIPMENT EXPENSES

	UNAUDITED	
	31 JANUARY 2018 \$000	31 JANUARY 2017 \$000
Rent	3,820	3,754
Repairs and maintenance	1,208	1,169
Other premises and equipment expenses	2,414	2,590
TOTAL PREMISES AND EQUIPMENT EXPENSES	7,442	7,513

* Included within the 2018 premises and equipment expenses was \$0.1 million in relation to the strategic initiatives. Refer to Note 2.

10. STAFF EXPENSES

	UNAUDITED	
	31 JANUARY 2018 \$000	31 JANUARY 2017 \$000
Salaries and wages (including contractors)	29,123	29,729
Termination payments	314	2
Other staff expenses	2,343	2,338
TOTAL STAFF EXPENSES	31,780	32,069

* Included within the 2018 staff expenses was \$1.3 million in relation to the strategic initiatives (2017: \$0.2 million). Refer to Note 2.

NZRB INTERIM FINANCIAL STATEMENTS 2018

CONDENSED NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 JANUARY 2018 (CONTINUED)

11. OTHER OPERATING EXPENSES

	UNAUDITED	
	31 JANUARY 2018 \$000	31 JANUARY 2017 \$000
Auditors remuneration		
- Audit and review services	93	84
- Taxation compliance services	6	6
- Treasury advisory services	-	2
- Other services ¹	5	3
Board members	197	195
Consultancy	1,453	1,082
Impairment	45	80
Interest	137	183
Legal	150	190
Merchant	2,330	1,990
Printing and stationery	150	241
RIU swabbing costs	704	660
Travel and accommodation	1,568	1,700
Other operating expenses	1,378	1,161
Less: EML costs recovered from Gaming ²	-	(507)
TOTAL OTHER OPERATING EXPENSES	8,216	7,070

¹ Other services relate to the review of the gaming financial statements and forecast information for Class 4 relicensing purposes.

² Events, Marketing and Logistics (EML) costs for 2017 recovered from Gaming relates to the application of funds from Gaming to reimburse certain promotional expenses under its Racing Authorised Purpose. Refer to note 4.

* Included within the 2018 other expenses was \$0.3 million in relation to the strategic initiatives (2017: \$0.5 million). Refer to Note 2.

12. RELATED PARTIES

There have been no significant changes to the related parties or transactions with related parties since 31 July 2017.

NZRB INTERIM FINANCIAL STATEMENTS 2018

CONDENSED NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 JANUARY 2018 (CONTINUED)

Other

13. OTHER FINANCIAL ASSETS

	UNAUDITED	AUDITED
	31 JANUARY 2018 \$000	31 JULY 2017 \$000
Industry loans - RACE Inc	2,719	2,927
Industry loans - The Races Partnership Limited	1,221	-
Term deposits - Betting Accounts and Vouchers Trust	25,000	22,000
Term deposits	-	15,000
Other	76	76
TOTAL OTHER OPERATING ASSETS	29,016	40,003

Disclosed as:		
Current	25,000	37,000
Non-current	4,016	3,003
TOTAL OTHER OPERATING ASSETS	29,016	40,003

Betting Accounts and Betting Vouchers Trust short-term deposits are funds held in trust to cover the balance of customer betting accounts deposits and vouchers liability. The short-term deposit of \$25.0 million and \$1.0 million included in the cash and cash equivalents balance is held to cover the total owed to customers of betting account deposits and vouchers liability of \$23.4 million. The deposits and cash balance held in trust are not available for use by NZRB in the ordinary course of business up to the value of the betting deposits and vouchers liability.

14. SUBSEQUENT EVENTS

There are no subsequent events as at 31 January 2018.