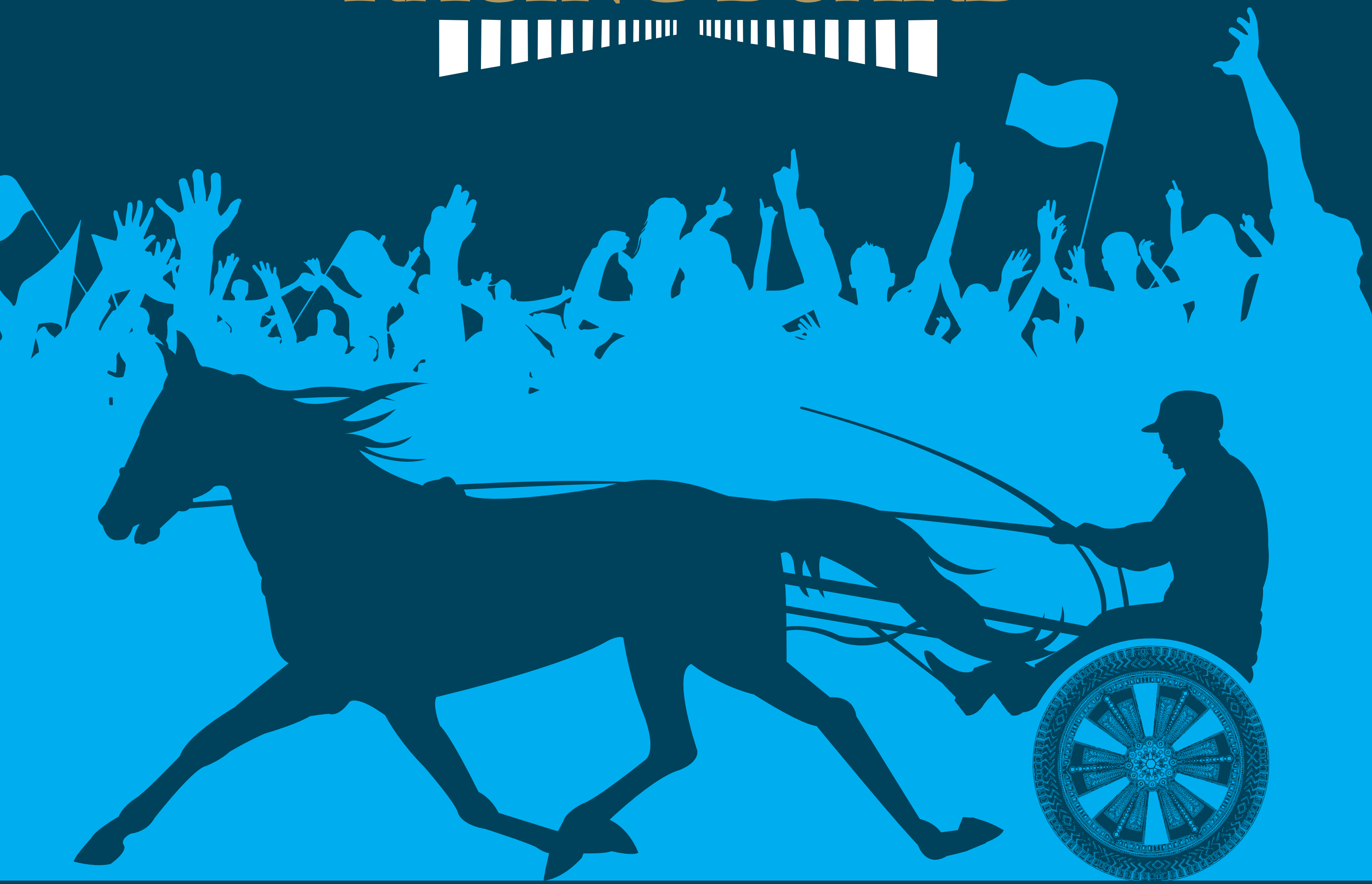
NEW ZEALAND

RACING BOARD



STATEMENT OF INTENT 2018 - 2020

CONTENT

THE NEW ZEALAND RACING BOARD IS THE PARENT BRAND OF TAB AND TAB TRACKSIDE.

TAB TAB trackside

FOREWORD FROM THE CHAIR

Significant change is underway at the New Zealand Racing Board (NZRB), change that actively addresses long term fundamental issues that have limited the racing industry's performance over the last few decades.

The strategic pathway chosen by NZRB sets out a very clear direction. The NZRB leadership team has identified a series of key strategic initiatives that will, once implemented, provide a significant lift in annualised Net Profit. These are not small undertakings, but we have great confidence that NZRB has the right people, capability and resources to deliver these projects and in the financial gains they will provide to the New Zealand racing industry.

NZRB must meet the changing environment in which we operate, particularly the growth of sports betting as an entrypoint to the wagering market, but our primary focus first and foremost is on racing and delivering a sustainable future for the New Zealand racing industry. However, if we are to achieve this future, more widespread measures through the entire industry are necessary. The Board will not shrink from its leadership role in working with the industry to formulate and implement what has to be done.

INCREASING INDUSTRY FUNDING

In January 2017, NZRB introduced the $4.77 million Industry Enhancement Funds towards supporting stakes, infrastructure and youth development. Utilising gaming proceeds for racing authorised purposes, this funding, available from the second half of 2016/17 through to 2018/19, directly addresses three key areas of concern within the industry.

We have further recognised that more immediate financial assistance is needed. In April 2017, the Board announced our commitment to deliver some of the future funding increase early, by providing an additional $12 million in the 2017/18 season to enhance participation and investment in racing. A further $12 million for the 2018/19 season is expected to be provided at a minimum following assessment by the Board prior to the commencement of that season and may be increased if financial returns generated from the key strategic initiatives exceed $12 million.

Distributions to the racing Codes for 2019/20 are estimated to increase to $172.2 million as the benefits of NZRB's key initiatives begin to be realised (this reflects the increase in Betting net profit resulting from the strategic initiatives that is applied against the $12 million per year of additional funding that has been committed early for the 2017/18 and 2018/19 seasons).

Bringing forward this additional funding will enable all industry participants to have greater certainty in a successful future. The quality of our racing industry - both its animals and its people - is truly remarkable and NZRB has great confidence that New Zealand racing can and will thrive and succeed.

MAJOR MILESTONES ACHIEVED

We have made good progress towards having the 'racefields' legislation finally become a reality and the Board will continue to work closely with Government and other parties on enacting the proposed changes to the Racing Act that will bring a significant boost in funding to both racing and sports in New Zealand. This is something that the industry has been pursuing for a number of years and we are grateful for the Government's action on this issue and their ongoing support of racing.

Key agreements connecting New Zealand and Australian racing are now in place. While it took longer than first anticipated to negotiate these agreements, we believe we have secured the best outcome for the New Zealand racing industry within the current environment. New Zealand racing will be broadcast in Australia on Tabcorp's Sky Racing TV network, and through the international marketing agreement we can showcase New Zealand racing to an even bigger, world-wide audience utilising Tabcorp's extensive international network. This provides the opportunity to further explore commercial partnerships to promote New Zealand racing overseas. It will also enable the continuation of commingling of New Zealand and Australian pools, meaning our customers can enjoy better dividends through larger pools.

The Optimus programme has also successfully delivered one of the biggest technology changes NZRB has seen in 30 years with the migration of our IT infrastructure and key operating systems to the cloud, ensuring we can consistently and reliably deliver racing and betting to our customers, and providing significantly improved disaster recovery and business continuity capability for NZRB.

MANAGING OUR COSTS

The reasons for the historically increasing trends in NZRB's operating costs over the decade to 2014 have not been well understood in some sectors of the industry. However, the key point now is that the current Board and management are succeeding in reducing NZRB's year on year normal operating costs while, at the same time, responding to the reality that the current state of the industry requires investment in the short term in order to achieve a sustainable industry in the medium to long term.

We remain firmly committed to keeping our operating costs as flat as possible, by unwinding historic expenses from our business built up over previous years, actively pursuing cost saving initiatives and extracting greater value for money from our contracts, and by tightly managing all other spending.

Excluding investment behind our key strategic initiatives, operating expenses for 2016/17 are forecast to be $136.7 million, $0.2 million (0.1%) below the prior year and $0.6 million below budget. This is largely driven by lower staff expenses that are forecast to be $3.7 million (5.6%) below the prior year and $0.9 million below budget. This, combined with other savings that have been achieved in broadcasting, travel, legal and consultancy fees, has helped fund costs associated with the Optimus programme.

The 2017/18 Budget reflects a further reduction in operating costs by $0.5 million to $136.2 million. Budgeted increases in communication and technology expenses of $0.7 million reflects continued investment in our core operating systems. An expansion of TAB gaming operations at a cost of $0.5 million contributes to a lift in gaming net profit of $1.4 million. Other expenses are budgeted to increase by $0.4 million driven largely by legislative and regulatory requirements covering anti-money laundering, data security and health and safety. These underlying cost increases have been mitigated by an ongoing focus on operating costs including property and procurement related initiatives and the realignment of 'Events, Marketing and Logistics' (EML) operations.

The activities of the EML function, including the management and marketing of events such as Christmas at the Races and the Interislander Summer Festival franchises for racing clubs nationwide, are being transferred into a separate entity, with the equine Codes as primary shareholders. This change results in running costs related to EML of $2.5 million moving from operating expenses to distributions in 2017/18 to specifically fund the continuation of the EML operations over the coming racing year.

FOREWORD FROM THE CHAIR (CONTINUED)

CARING FOR OUR ANIMALS AND CUSTOMERS

NZRB works alongside Government and our industry partners to ensure we are providing a safe and responsible gambling environment. While for most of our customers betting on racing or sports is a fun, safe and exciting pastime, some people are at risk. We are reviewing both proactive and reactive approaches to the identification and investigation of potential problem gambling situations and working alongside problem gambling support agencies to better understand customer needs. NZRB is committed to the highest and most robust standards in addressing this issue.

Animal welfare is, and always will be, a critical priority for NZRB and our industry. While we are fortunate to have the independent Racing Integrity Unit (RIU) to monitor and enforce welfare in New Zealand, we can never be complacent when it comes to the well being of our animals. NZRB continues to closely monitor rules for the use of the whip for the equine codes and ongoing animal welfare activities for greyhounds. Last year we announced the New Zealand Greyhound Racing Inquiry to review the systems and processes relating to the breeding, racing and life cycle tracking of Greyhounds bred in New Zealand and imported into New Zealand. We expect the findings of this review later in the year.

NZRB is getting on with delivering results - our focus is clear, and we are confident in the decisions we are making. However, we cannot enact meaningful change without the support and contribution of the whole industry. It is imperative we work together, claiming our place as an industry that makes a significant economic and social contribution to New Zealand, to create an opportunity for everyone involved in racing to have a long-term sustainable future.

Glenda Hughes

Glenda Hughes
NZRB Chair

INTRODUCTION FROM THE CEO

New Zealand has long been a leader when it comes to racing and sport on the world stage. Seeing the successes of our New Zealand animals, breeders, jockeys, drivers, trainers and sportspeople reinforces to all of us at the New Zealand Racing Board (NZRB) why we are here. It inspires us. It fills us with confidence that if we get the product right, if we get the customer experience right, we can help New Zealand racing and sport become truly exceptional.

NZRB is on the pathway to achieving significant change. Our key strategic initiatives - fixed odds betting platform, customer and channel improvements, racefields legislation, and the optimise the calendar programme - will deliver a significant lift in annualised net profit once fully implemented. There are of course risks with implementing these types of strategic initiatives which is why we have rigorously tested our strategic options, appointed experienced international business partners and chosen a variety of agile delivery methods to ensure their successful implementation. Over the coming three years, we expect total net profit to increase close to $200 million upon implementation.

These are big numbers, and we are conscious of the fact we are not the first to talk of uplift of this scale. The potential for our business, and in turn our industry, to grow and prosper has long been evident, and we know we can deliver this future through the delivery of the key projects we are implementing. This is why we have signalled our confidence in delivery by committing to provide some of the projected funding increase early, lifting distributions by $12 million per year in 2017/18 and a further $12 million subject to Board approval in 2018/19. While there are costs involved in implementing these initiatives, the profits they will generate are essential to make sure the industry is well-supported to deliver a sustainable future.

THE IMPORTANCE OF FOB

Right now, NZRB's highly manual Fixed Odds Betting (FOB) platform is costing us money. We are unable to adequately compete with overseas providers who can offer significantly more options and change their odds with incredible speed as the markets change. This is why our Fixed Odds Betting Project is so critical, as by automating this ever-growing segment of our business, we will be able to lift profitability by achieving better margins.

Our partners in this project, Openbet and Paddy Power Betfair, have significant international experience with this type of solution and will provide the quickest avenue to the financial benefits of a greatly improved FOB option, using world-class systems and pricing algorithms. With our new automated system we will be able to offer significantly more options, and manage risk much more effectively.

By partnering with a major international player in the wagering market, we can leverage their scale to our advantage while still retaining control of our operations and leaving other strategic options open for future development. We are budgeting for the new platform to deliver an additional $11.6 million of net profit in the 2018/19 financial year and an additional $17.4 million in 2019/20.

DOUBLING ACTIVE CUSTOMERS

We currently have over 180,000 TAB account customers, but we know only around half of these are actively betting with us - and we intend to change this. Through our Customer and Channels initiative, we are seeking to both expand our customer base by attracting new customers, and reactivate existing customers. We expect to improve profitability through a combination of growing our active account customers (both re-activated and new acquisitions), delivering a world class channel experience for our customers, and by lowering costs through an optimised physical network and lower costs to serve.

We have a clear understanding of our customer's expectations, what motivates their participation and drives their betting behaviour. Now we need to use this understanding to put the right content and offers in front of them to raise their engagement with our products.

A big part of increasing active account customers is through improving our online presence. We will be increasing the number of releases through our mobile app, as well as developing our website and social media presence. Our online Elite portal introduced last year showcases the suite of benefits we offer to our top tier customers and gives NZRB a further way to engage these valuable customers as part of our retention strategies. Work is also underway to implement a retail network plan that will support the design and execution of our future retail coverage including location, store format, ownership models and service offerings.

To rapidly accelerate growth of first time bettors, we need to broaden our mass market appeal and invite more Kiwis to connect with the TAB. The ambition of our new brand strategy is to start to shift public perception of the TAB brand and cast aside old perceptions that have inhibited our appeal to the wider public, and women in particular. Put simply, our brand identity must evolve to meet the changing profile of potential customers and the TAB needs to have mass market appeal to accelerate customer growth. To retain these new customers, the sign-up and onboarding journey remains a key area to enable growth. We are working on ways to simplify the experience of becoming a TAB customer and new digital identity verification has been introduced.

OTHER KEY INITIATIVES AND FOCUS AREAS

As noted by our Chair, we reached an important milestone with our racefields initiative earlier this year, when the Government announced in March 2017 a Bill would be introduced into the House with proposed changes to the Racing Act. While the timeline is challenging, we remain hopeful of having this crucial legislation, which has broad cross-party support, introduced before the election in September so as to come into force in 2018. We have estimated five months of racefield revenues in our forecast for the 2017/18 year that reflects the timeline surrounding the parliamentary process and regulatory frameworks that need to be implemented.

We are also looking at optimising the racing calendar and exploring different funding models for the Codes, essentially distributing funds based on the contribution of various racing products. In essence seeking to provide pricing signals to clubs and Codes that provide more attractive product to wager on. If the domestic industry is to thrive, better infrastructure utilisation and cost rationalisation is needed for all industry participants. NZRB will continue to facilitate the conversations around venue intensification and the change required in order to address those challenges. It is clear that the utilisation of racing facilities will change.

A project is underway to look at the way we capture live footage from race tracks. Our fleet of outside broadcast (OB) vehicles are nearing end-of-life and if vision is lost, even for a short time, the impact on betting revenue is significant. The current operating model has provided a good solution to this point however maintaining it requires heavy capital investment in ageing technology and significant travel and logistics to manage. We are taking the opportunity of this need for change to review how different innovative solutions may help us improve our business and be more efficient and adaptable to the future needs of both NZRB and the wider industry.

And of course, in addition to our key initiatives and projects, we will be ensuring our extensive operations are supported to continue to deliver our net profit targets. We'll be broadcasting tens of thousands of races across the country through our two TV channels and radio station, taking millions of bets at our TAB stores and through our online channels, ensuring our ever-critical and specialised technology continues to operate 24/7, and providing all the supporting services that go with operating a business of this size and complexity.

INVESTING FOR THE FUTURE

Our key strategic initiatives will deliver a real uplift in net profit, but will also require significant financial investment to implement them. The table below summarises the estimated capital investment required to deliver these initiatives, and the projected impact on net profit over the coming three years as they are progressed. While there are risks with implementing these types of strategic initiatives, the payoff is significant. The impact to net profit in 2017/18 is a reduction of $7.1 million that reflects the investment required, primarily in FOB, which delivers an increase in net profit to close to $200 million in 2019/20 upon successful implementation.

KEY STRATEGIC INITIATIVE	CAPITAL INVESTMENT $ MILLION			NET PROFIT IMPACT $ MILLION		
	2017/18	2018/19	2019/20	2017/18	2018/19	2019/20
Net Profit Baseline				**153.9**	**156.4**	**159.4**
Offshore Betting (Racefields)	-	-	-	4.9	8.9	11.9
Other Key Strategic initiatives	23.4	15.0	8.4	(12.0)	19.7	29.2
Sub Total Initiatives	**23.4**	**15.0**	**8.4**	**(7.1)**	**28.6**	**41.1**
Revised Net Profit				**146.7**	**185.0**	**200.6**

The past few years has seen a number of ideas put forward on how we can address the systemic issues our racing industry has faced for decades and build a sustainable future. They've been varied and often hugely innovative, and at the core of all of them is a common theme - the underlying great passion for racing and desire to see our industry flourish and succeed.

NZRB has a huge responsibility to the racing and sporting people of New Zealand to provide the financial support they need to go out and achieve on the world stage. We know what we are proposing will not solve all the industry's problems. But it's a very good start. NZRB will continue to work with the Codes to explore broader strategic options that may provide improved returns to the industry, and with the successful delivery of these initiatives, we will be in an even stronger footing to look at what can be achieved next.

John Allen
Chief Executive Officer

NZRB'S STRATEGY AND PRIORITIES

STRATEGIC FOCUS

NZRB and the TAB has a long history in NZ - we've been a part of the Kiwi fabric for more than 60 years and this is something we can rightly be proud of. We need to respect this legacy by building a successful future, but to succeed - both for ourselves and our industry - we all need to understand where we're going and how we're going to get there.

The TAB is the economic engine of the industry. The ability of NZRB to grow distributions to the industry is directly correlated with the investments required to make the TAB more relevant and responsive to, and more focused on, delivering the experiences customers want and need.

To achieve our goals, NZRB has a three-pronged strategy:

- Focusing investment in fit for purpose systems and infrastructure that underpins our opportunity to grow.
- Transforming the business to be customer-led to ensure our future products, channels and initiatives are developed to meet the needs of our customers.
- Optimising the industry footprint, infrastructure, and cost base to prioritise our investment to align with the future needs of the industry.

2016/17 REVIEW

KEY TRENDS

The trends to April 2017 are in line with prior years and continue to demonstrate the shift in product and channel preferences by customer.

- Racing gross betting revenue is in line with the prior year, with a decline in racing tote (-7.4%) offset by growth in FOB (+19.1%). Sports gross betting revenue continues to grow, up 13.3%.
- Strong betting margin performance in 2016/17 has offset a decline in betting turnover of -1.3%, linked to few high staking Elite customers. Overall gross betting margins have increased by 0.5 ppts compared to the prior year, from 15.0% to 15.5%, despite the shift in customer preference towards fixed odds betting (FOB) and 'in-play' sports products. High betting margin tote products comprised 46% of total betting turnover compared to 49% for last year. FOB now represents 39% of all racing turnover and 54% of total turnover.
- The number of betting options offered has increased 16% year on year, with Australian racing options on track to surpass 100,000 for the year, an increase of 61% compared to last year.
- In-play sports betting continues to grow, up 7.6%, despite the lower betting activity of a few high staking Elite customers.
- The average number of active account customers YTD is over 95,000, up 6% on the prior year.
- Digital channels now account for 57.4% of betting turnover, and growth has been particularly strong in mobile channels including the Mobile App which has grown by 69.2% year on year.

Total turnover from racing products has remained relatively flat over the last three years with the decline in domestic racing offset by growth in overseas racing products. Turnover from sports products however has increased considerably during this period. While turnover from sports products continues to grow, racing will continue to make up the majority share of betting turnover for the foreseeable future.

Over the last 12 months, more than half of all turnover from new customers in their first month of activity has come from sports products; this is a key entry point for customers into the wider wagering environment. Major sporting tournaments including football and rugby world cups provide additional customer acquisition opportunities over and above our normal customer growth rate.

PRIORITIES AND KEY STRATEGIC INITIATIVES

Cost Management

Benefits from changes to our operating model and cost saving initiatives implemented over the past two years have been realised in a number of areas including the closure of Phonebet operations, removal of SMIP bonus scheme, temporary salary restrictions and recruitment caps, lower contractor spend, restructure of Broadcasting agency agreements, changes to reduce credit card chargebacks, further consolidation of the NZRB property portfolio, insurance re-negotiations and a variety of procurement savings. This has resulted in NZRB's underlying operating costs reducing by $0.2 million over the past year, with a significant reduction in staff expenses. Operating costs are budgeted to reduce by a further $0.5 million in 2017/18. This remains an ongoing focus area with further initiatives being progressed to minimise future growth in operating costs.

Optimus Programme

The Optimus programme has now been largely completed, with only the de-commissioning of the old data centre in Petone remaining.

The programme has successfully delivered one of the largest technology changes for NZRB over the past 30 years. Following end-user improvements introduced early in 2017/18, the major activities for the programme over the year was the movement of NZRB's servers to a cloud-based system with Spark's Revera. The move provides NZRB with much-needed business continuity processes, reducing the risk to operations should a major incident affect Wellington.

Offshore Betting ('Racefields')

In March 2017, the then Minister for Racing, Hon Nathan Guy, announced proposed changes to the Racing Act were being progressed by Government. Following the announcement, a Bill is being prepared for submission to Parliament.

The proposed amendment will mean that offshore bookmakers who either take bets from people in New Zealand, or take bets on New Zealand racing, will have to pay a fee which will go back to the applicable racing or sports sectors. The changes proposed will also see NZRB being able to take 'in-race' bets for the first time, similar to the popular in-play bets we are already able to take on sports events. We will also be able to take bets on sports without a National Sporting Organisation (with the agreement of Sport New Zealand), opening up a greater number of sporting events for betting options.

Fixed Odds Betting

In December 2016, after several months of in-depth analysis of the proposals put forward by two parties, the NZRB Board approved for NZRB to engage with OpenBet/Paddy Power Betfair (OB/PPBF) on the design for a FOB platform solution. The design phase was undertaken during the first part of 2017, and included a series of workshops involving both NZRB and Openbet to provide further insight into how we can use the capabilities of the OpenBet system, followed by preparation of a business case outlining the proposed design and implementation plan. The business case was provided to the Board's Technology sub-committee in May and approved for implementation.

Customer and Channels

Customer research over the past year has provided us with a deeper understanding of our customer groups including betting participation drivers. This understanding has been used to underpin the development of a customer and channels roadmap, and inform customer experience improvement planning. Early customer experience improvements introduced in 2016/17 include an online identity verification tool and a new online portal for our Elite customers. Identity verification is a part of the account sign-up process and previously could only be completed by physically verifying your identity at a TAB retail site. The piloted tool enabled customers to complete their account sign-up entirely online. The pilot saw a 12% increase in customers completing the account sign-up process. The tool has now been rolled out to all new account customers. The Elite customer portal provides our high-value customers with easy online access to their account details and the benefits included in our Elites programme.

A new TAB brand strategy has been developed, with a refreshed TAB marketing programme introduced in the last quarter of the financial year. The new strategy includes a refreshed look and feel for the TAB brand designed to appeal to a wider audience, and moves away from more traditional advertising in favour of lower cost digital advertising mediums.

Optimise the Calendar

The drafting of the 2017/18 racing calendar was updated this year to use key 'optimisation' principles which were applied across all three Codes. These principles were developed by a project team including both NZRB and Code representatives, following significant economic analysis and modelling of potential scenarios.

When modelling potential scenarios for the calendar, the calendar had to balance between:

- maximising the revenue from the domestic racing industry,
- maximising the opportunity for revenue from international racing, and
- optimising the operational costs of servicing the domestic racing calendar, for all participants.

While the changes have resulted in no material change to the number of meetings or races by Code and on the current number of race venues, overall we estimate they will add $3 million in economic value to the industry (made up of changes to NZRB and club costs and revenues), compared to rolling over the standard calendar from the previous season. Implementing changes like these will help provide a step towards a sustainable domestic racing industry.

Vision Capture

The Vision Capture project has been set up to design and implement a long-term strategy for how racing footage is captured in New Zealand. With our outside broadcast fleet near end-of-life, the project has taken the opportunity to review our current operating model and investigate how different solutions may help us be more efficient and adaptable to the future needs of both NZRB and the wider industry.

A strategic roadmap for vision capture was endorsed by our Board in November 2016, and the project then moved into phase one of implementation. The proposed plan enables us to provide targeted solutions depending on the different levels of production required to maximise efficiency, allow flexibility and target investment where necessary.

NZRB'S STRATEGY AND PRIORITIES (CONTINUED)

2017/18 PRIORITIES

Our successful progress over the past year has positioned NZRB to now focus on the second prong of our strategy, delivering to customers and growing the revenue we generate for the industry.

These projects are critical to the future success of the racing industry. They deliver fit for purpose systems, a level international playing field for our partners, an improved customer experience, and a modern, world-class vision capture model. In addition, the Optimise the Calendar project illustrates the significant financial benefit that can be generated for the industry when the racing Codes work constructively under the guidance of the NZRB. Collectively these systems, operational models and behaviours form the bedrock from which the industry can launch.

In addition to the key initiatives and projects, NZRB will also be continuing to distribute the Industry Enhancement Funds announced in January 2017, with $1.85 million available in the 2017/18 year. These funds target three key areas within the industry:

- Stakes enhancement fund - tactically boosting stakes to attract higher quality racing, improving the overall race experience for industry people and punters alike.
- Infrastructure enhancement fund - investing in the key infrastructure we need to advance our industry.
- Youth enhancement fund - helping build the next generation of racing by encouraging and incentivising the development of career paths into and through the industry.

NZRB's focus on revenue generation and increasing distributions will in turn support the third part of our strategy, the effective leadership of the racing industry. Over the coming year, NZRB will be leading the conversation and working closely with Codes, clubs and other industry participants on how the industry may need to change to ensure a sustainable and prosperous future. We will not be hiding from the difficult discussions that need to occur around governance, infrastructure, and industry shape as we look to the future.

NZRB'S STRATEGY AND PRIORITIES (CONTINUED)

KEY STRATEGIC INITIATIVE	TACTICAL ACTIVITIES
Fixed Odds Betting Platform	• Over the next 12 months, members of the OB/PPBF and NZRB programme team will be implementing the recommended solution, which we expect to go live in mid 2018. • In addition to the wagering benefits, the new solution provides other benefits including new digital platforms for the TAB mobile app and website.
Customer & Channels	We are undertaking a range of tactics, programmes and channel improvements designed to improve the overall customer experience and lift the number of customers betting with the TAB, either as returning or new customers. • TAB brand repositioning to start to shift public perception of the TAB brand, meet the changing profile of potential customers and gain mass market appeal to accelerate customer growth. • Customer acquisition to include more targeted and sport-specific acquisition programmes. • Onboarding - streamlining the process of becoming a customer and making it easier to understand and use our products including fully rolling out the online identity verification tool following the successful pilot. • Retail network plan - design and execution of our future retail coverage including location, store format, ownership models and service offerings. • Increasing the number of releases through our mobile app, as well as developing our website and social media presence.
Offshore Betting ('Racefields')	• We will be continuing to work with the Government to support the progression of the Racing Act amendment Bill through the parliamentary process.
Optimise the Calendar	• The project will be developing an approach to product pricing that incentivises good betting product and closer aligns the interests of NZRB, Codes and clubs. • We will be seeking short-term opportunities to intensify venues where little investment is required that will be included in the first draft for the 2018/19 season. • Other short-medium term opportunities are being assessed and focus on identifying a region where NZRB may be able to play a positive role in facilitating further venue intensification.
Vision Capture	• The vision capture solution will be implemented in a phased manner over an estimated five year period to manage the risk of change and the capital investment, and maximise the benefit of being able to review changing business needs and rapidly evolving technology. • The phased approach will include a transition to HD, now the baseline device standard. The transition to HD will bring us in line with a number of our international counterparts.

2016/17 FORECAST RESULTS

The 2016/17 forecast is based on the NZRB's actual performance to April 2017 and forecasted performance for the remainder of the year.

- Betting turnover is expected to be marginally behind last year at $2,265.8 million, down $29.1 million (1.3%) and below Budget by $137.5 million (5.7%). The decline in turnover is linked to the loss of a small number of high staking Elite customers driven by our competitive offering and lower VIP activity in line with new Tabcorp commingling restrictions, however underlying customer metrics are performing strongly. In addition, one of the main reasons turnover was expected to be lower than last year was the lack of major world tournaments (i.e. Rugby World Cup, Football World Cup or Cricket World Cup), these tournaments are high turnover but more importantly provide a great opportunity for customer acquisition, retention and reactivation. Racing tote continues to decline and is expected to be $64.7 million (6.7%) below last year and $15 million (1.7%) below Budget. This is offset by growth in racing and sports fixed odds betting of $59.9 million (9.7%) and $11.0 million (2.0%) respectively that continues to perform better than last year due to a shift in customer preference and an increase in the number of betting options offered. Gaming turnover is anticipated to be ahead of last year by $31.6 million (7.8%) and above Budget by $14.5 million (3.4%) at $435.0 million due to a combination of opening new gaming venues and improved performance from existing venues following key refurbishments and game conversions.
- Net betting revenue is forecast at $280.2 million, slightly below last year ($0.8 million or 0.3%) but $0.4 million (0.1%) ahead of Budget despite the lower than expected turnover. Strong betting margins are the result of improved margins realised on NZ fixed odds racing turnover and a change in sports product mix. The growth of 'in-play' betting, which has a lower margin than other products, has been impacted by the loss of a small number of Elite customers. As a result of these changing trends, the overall net betting margin is expected to be 12.5%, 0.3 ppts ahead of last year and 0.5 ppts above Budget. Net gaming revenue is forecast in line with Budget at $24.9 million and is expected to be $1.6 million (7.1%) ahead of last year in line with growth in turnover.
- Other income is projected to be $47.6 million, which is in line with last year and $0.7 million higher than Budget. Last year included a gain on sale of the Christchurch property of $2.0 million. This year's forecast includes a gain on sale of the Hamilton property of $0.6 million which was unbudgeted. Excluding property sales, other income is anticipated to be in line with Budget and $0.9 million (2.0%) ahead of last year driven by an increase in merchant fee recoveries, rent received and higher interest income.
- Turnover related expenses are expected to be $67.2 million, which is higher than Budget by $1.0 million (1.5%) and the previous year by $0.7 million (1.1%). Growth in sports turnover has resulted in higher National Sporting Organisation (NSO) commissions that has been partly offset by lower race form publication costs and commingling fees.
- Excluding investment behind our key strategic initiatives, operating expenses are expected to be $136.7 million, $0.2 million (0.1%) below last year and below Budget by $0.6 million (0.4%). This is largely driven by lower staff expenses that are forecast to be $3.7 million (5.6%) below the prior year and $0.9 million (1.4%) below Budget. This combined with other savings that have been achieved in broadcasting, travel, legal and consultancy fees has helped fund technology costs associated with successfully implementing the Optimus programme. Anticipated costs relating to the strategic initiatives are expected to be $5.0 million for the 2016/17 year.

2017/18 BUDGET

Consistent with last year's Statement of Intent, the 2017/18 Budget has been developed on a 'business as usual' basis and excludes the capital investment and associated benefits in relation to delivering the key strategic initiatives. The Budget reflects an ongoing improvement in the performance of the core business while significant investment is made in the future through the key strategic initiatives.

The estimated impact of the key strategic initiatives, including both capital investment and financial returns, has been provided in the SOI Forecast. To help insulate the industry from the impact of this upfront capital investment, the NZRB has introduced the $4.77 million of Industry Enhancement Funds to support stakes, infrastructure and youth development and further announced our commitment to deliver some of the future funding increase from these strategic initiatives early, ahead of full implementation, by providing an additional $12 million per year over the next two years to enhance participation and investment in racing.

- Net profit is budgeted at $153.9 million, an increase of $5.2 million (3.5%) on the net profit forecast for 2016/17, excluding investment costs and benefits relating to the key strategic initiatives. This is made up of betting net profit of $142.4 million, gaming net profit of $17.8 million less Racing Integrity Unit costs of $6.3 million. This represents a $2.5 million increase on the net profit forecast for 2017/18 financial year (excluding racefields income) reflected in last year's Statement of Intent.
- Net betting revenue is budgeted at $287.9 million, an increase of $7.7 million (2.7%) on 2016/17 forecast. Betting turnover growth of $142.4 million (6.3%) is offset partly by the continual shift in customer preference towards lower margin sport and racing products combined with restrictions on international commingling impacting VIP activity.
- Net gaming revenue is budgeted at $26.8 million, an increase of $1.9 million (7.6%) on 2016/17 forecast. Gaming turnover is budgeted to increase by $35.0 million (8.1%) due to the opening of two new gaming venues during 2017/18 and growth from current sites as they are refurbished and upgraded.
- New Zealand racing shown overseas revenue is budgeted to increase $0.8 million (4.0%) on 2016/17 forecast and includes the full year impact of 4% product fees for premium race days in the new Tabcorp agreements combined with less abandonments that were experienced in 2016/17.
- Other income is budgeted at $24.8 million, a decrease of $1.7 million (6.1%) on 2016/17 forecast. The 2016/17 forecast includes a one off gain on sale for the Hamilton property of $0.6 million. The realignment of EML into a new entity also reduces other income by $0.8 million. Lower cash balances due to investment in the key strategic initiatives combined with the additional industry funding leads to interest income reducing by $0.6 million and broadcasting revenue decreases by $0.2 million due to falling SKY subscriber numbers.
- Turnover related expenses are budgeted at $71.4 million, an increase of $4.2 million (6.3%) on 2016/17 forecast in line with the growth in betting and gaming turnover (NSO levies, overseas racing rights and retail turnover commissions).

- Overall operating expenses, excluding investment costs behind the key strategic initiatives, are budgeted to reduce by $0.5 million at $136.2 million compared to 2016/17 forecast. The key drivers of this are as follows:
  - A total of $2.5 million of operating costs relating to the Events, Marketing and Logistics (EML) function have been removed for the 2017/18 year. Activities run by EML, which coordinate events such as Christmas at the Races and Interislander Summer Festival for clubs nationwide, will be transferred into a separate new entity, with the equine Codes as primary shareholders. These funds are being ring-fenced by NZRB and added to Distributions in 2017/18 to specifically fund the continuation of EML operations.
  - Underlying operating expenses are budgeted to increase by $2.0 million reflecting a combination of revenue growth initiatives (i.e. expansion of TAB gaming operations), higher regulatory and compliance related activities (AML, PCI, OH&S), investment in our core operating systems and platforms, higher property related costs, structural changes and increased drug testing in the RIU and an increase in staff remuneration following salary restrictions imposed for all staff earning over $75,000 last year. This increase has been partly mitigated by various cost saving initiatives that are ongoing across the business.
  - A summary of the underlying operating cost increases is provided below:

	$ MILLION	NOTES
2016/17 OPEX Forecast	**136.7**	
TAB gaming operations	0.5	Linked to increase in gaming profits (+$1.4m)
Regulatory and compliance	0.3	Covers AML, PCI, Health & Safety
Technology investments	0.7	Includes core IT systems and Vision Capture
Property costs	0.4	Sale of Hamilton property and TAB rental costs
RIU	0.2	Reflects structural changes, vet & drug testing
Staff costs	1.4	Remuneration increase following freeze last year
EML realignment	(2.5)	Realignment of EML under new entity
Cost saving initiatives	(1.5)	Covers retail network and procurement initiatives
2017/18 OPEX Budget	**136.2**	

- Excluding investment in the strategic initiatives, the 'Operating Expenses to Revenue' ratio has reduced from 39.4% in 2015/16 to 37.7% in 2017/18. Factoring in the strategic investments, the 'Operating Expenses to Revenue' ratio increases by 0.5 ppts, from 39.7% in 2016/17 to 40.2% in 2017/18, however over the three years from 2017/18 to 2019/20, this ratio reduces from 40.2% to 35.1% as benefits from the strategic initiatives are realised. Total operating expenses (excl. strategic initiatives) five year CAGR forecast is 0.6%.
- BAU capital expenditure is budgeted at $16.0 million, which is in line with prior years, underpinned by critical infrastructure technology requirements including core operating systems and broadcasting equipment, gaming room upgrades, regulatory and compliance projects and business improvement initiatives.

- The net impact of the key strategic initiatives on 2017/18 net profit is estimated at $7.1 million that includes both investment costs and benefits from the initiatives. Benefits are expected to be realised from offshore betting (racefields) legislation ($4.9 million), Optimise the Calendar ($1.3 million) and Customer and Channels ($2.0 million) initiatives. The investment costs relating to the Fixed Odds Betting platform (FOB) initiative are expected to be $9.6 million in project expenses and $20.0 million in capital expenditure. Benefits from the FOB initiative are expected to commence in 2018/19 following implementation, estimated at $11.6 million. The Customer and Channels Strategy investment costs are expected to be $5.4 million in the 2017/18 year with a capital investment of $3.4 million. Benefits from the Customer and Channels initiative in 2018/19 are estimated at $6.8 million.
- Distributions to the Codes is budgeted at $150.8 million in 2017/18, an increase of $14.6 million (10.7%) over the next season. As announced in April 2017, $12.0 million of additional funding targeted at increasing stakes will be paid in the 2017/18 year. A further increase of $2.6 million is being distributed to fund the continuation of the activities and expenses of the Events, Marketing and Logistics business from 1 August 2017.
- Total net assets / equity is budgeted to decline by $15.6 million in 2017/18 to $55.8 million which reflects the impact of funding the capital investment programme underpinning the key strategic initiatives combined with the additional industry funding announced in April 2017. The total equity position recovers over the SOI period as benefits are realised from the strategic initiatives.

	$ MILLION	NOTES
2016/17 Forecast Net Assets/Equity	**71.4**	
Increase in operating profit	4.1	Reflects underlying growth in profit (incl. RIU)
Additional industry funding	(12.0)	Linked to April 2017 funding announcement
Strategic initiative investments	(7.1)	Strategic initiatives - OPEX impact
Other small Balance Sheet movements	(0.6)	Net movements in receivables, payables, etc.
2017/18 Budget Net Assets/Equity	**55.8**	

2017/18 FINANCIAL POSITION

The NZRB Balance Sheet has strengthened over the past few years with a disciplined approach to capital management and successful property portfolio rationalisation strategy resulting in a significant increase in free cash (liquidity). This increase in cash reserves including small amounts of profit retentions will go towards funding the investment programme underpinning the key strategic initiatives and additional industry funding announced in April 2017. In 2017/18 year, a three year revolving debt facility will be established to supplement the NZRB Balance Sheet that provides the flexibility required to manage these overall funding requirements.

Total equity is budgeted to decline by $15.6 million in 2017/18 to $55.8 million and recovers over the SOI period to $92.9 million in 2019/20 as benefits are realised from the strategic initiatives.

2019 AND 2020 PROJECTIONS

Excluding the benefits and investment costs relating to the key strategic initiatives, the current business trends and operating plans are expected to increase net profit in 2018/19 and 2019/20 by a modest 1.6% and 1.9% respectively from a 'business as usual' perspective. Revenue and operating expenses are projected to grow in line with current trends and consistent with the New Zealand macro economic indicators and also reflects higher regulatory and compliance requirements in line with new legislation (i.e. anti money laundering, data security and health and safety).

The key strategic initiatives are expected to deliver a significant increase in annualised net profit once fully implemented. In 2018/19, the strategic initiatives are expected to deliver an incremental $28.6 million in distributable profit that lifts to $41.1 million in 2019/20.

CODE DISTRIBUTIONS

NZRB requires a significant level of investment over the next few years to fund the major strategic initiatives and continue to implement key improvements to infrastructure. While these investments will impact NZRB's cash flow in the short term, benefits from these projects are expected to be realised from the 2018/19 year.

To help insulate the industry from the impact of this upfront capital investment, the NZRB has introduced the $4.77 million of Industry Enhancement Funds to support stakes, infrastructure and youth development and further announced our commitment to deliver some of the future funding increase from these strategic initiatives early, ahead of full implementation, by providing an additional $12 million per year over the next two years to enhance participation and investment in racing.

Code distributions are budgeted at $150.8 million in 2017/18, an increase of $14.6 million (10.7%) over the next season. As announced in April 2017, $12.0 million of additional funding targeted at increasing stakes will be paid in the 2017/18 year. A further increase of $2.6 million is being distributed to fund the continuation of the activities and expenses of the Events, Marketing and Logistics business from 1 August 2017. This increase will be funded from current cash reserves and projected profit retentions with a small amount of borrowing undertaken to also fund the investment in the strategic initiatives. As benefits from the strategic initiatives are realised, any debt incurred will be paid down and a sustainable distribution policy implemented.

Distributions to the racing Codes are expected to be at the same level of $150.8 million in 2018/19 at a minimum, and projected to increase further by $21.4 million to $172.2 million in 2019/20 as the financial benefits from the key strategic initiatives are realised.

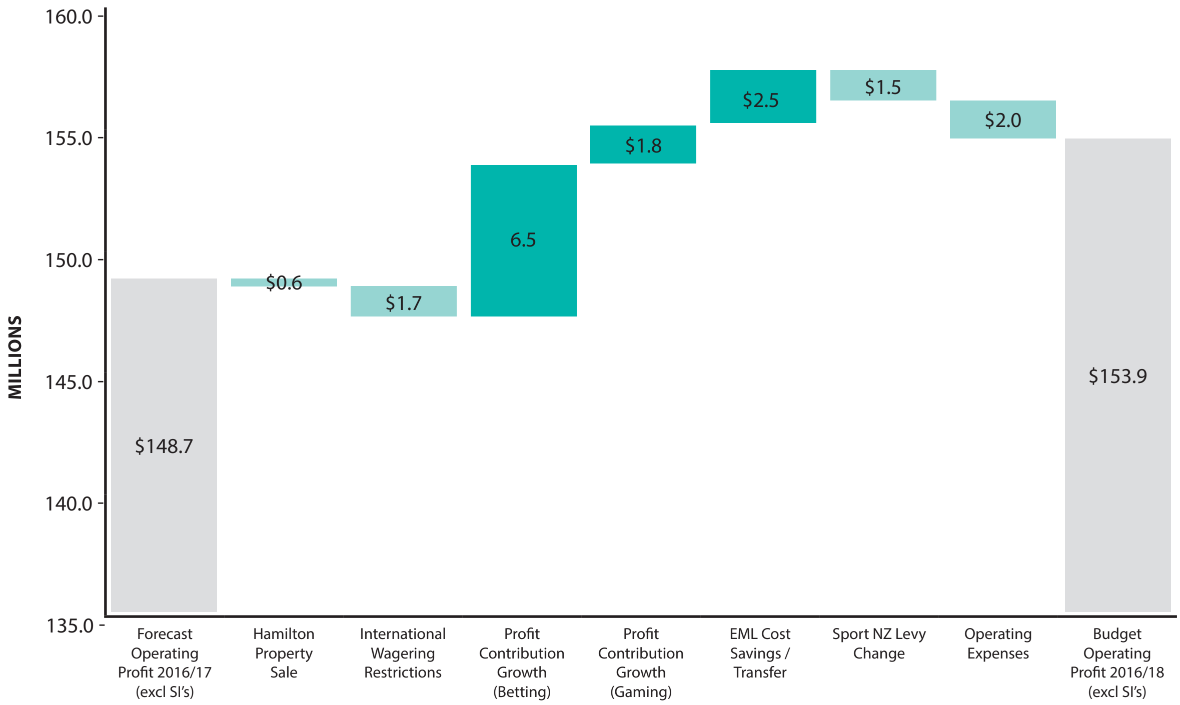
STATEMENTS OF PROFIT OR LOSS

Years ending 31 July	($M)					
	ACTUAL 2015/16	FORECAST 2016/17	BUDGET 2017/18	FORECAST 2018/19	FORECAST 2019/20	5 YEAR CAGR
BETTING AND GAMING TURNOVER	**2,673.4**	**2,676.5**	**2,855.2**	**2,902.8**	**2,975.1**	**2.2%**
REVENUE						
NET BETTING REVENUE	281.0	280.2	287.9	291.6	295.0	1.0%
NET GAMING REVENUE	23.2	24.9	26.8	28.9	30.5	5.6%
NZ RACING SHOWN OVERSEAS REVENUE	20.9	21.1	21.9	22.7	23.7	2.5%
OTHER REVENUE	26.8	26.5	24.8	25.4	26.4	(0.3)%
TOTAL REVENUE	**351.9**	**352.6**	**361.5**	**368.5**	**375.5**	**1.3%**
TURNOVER RELATED EXPENSES	66.5	67.2	71.4	71.9	72.8	1.8%
PROFIT CONTRIBUTION	**285.4**	**285.4**	**290.0**	**296.7**	**302.7**	**1.2%**
OPERATING EXPENSES						
BROADCASTING	10.0	9.9	9.7	9.9	10.0	0.1%
COMMUNICATION AND TECHNOLOGY EXPENSES	16.6	18.0	18.3	18.9	19.4	3.1%
PREMISES AND EQUIPMENT EXPENSES	15.0	15.4	15.0	15.2	15.5	0.6%
STAFF EXPENSES	66.8	63.1	62.6	64.4	65.6	(0.3)%
DEPRECIATION AND AMORTISATION	16.0	15.9	15.8	16.4	16.5	0.6%
FOREIGN EXCHANGE LOSS / (GAIN)	0.2	0.1	0.0	0.0	0.0	-
OTHER OPERATING EXPENSES	14.1	14.3	14.7	15.4	16.2	2.8%
TOTAL OPERATING EXPENSES	**138.7**	**136.7**	**136.2**	**140.2**	**143.2**	**0.6%**
NET PROFIT BEFORE DISTRIBUTIONS	**146.7**	**148.7**	**153.9**	**156.4**	**159.4**	**1.7%**
Made up of:						
BETTING NET PROFIT	137.3	138.3	142.4	143.9	145.9	1.2%
GAMING NET PROFIT	15.2	16.4	17.8	18.9	20.0	5.6%
RIU COSTS	(5.8)	(6.0)	(6.3)	(6.4)	(6.5)	(2.2)%

KEY STRATEGIC INITIATIVES

Years ending 31 July	($M) ACTUAL 2015/16	FORECAST 2016/17	BUDGET 2017/18	PROJECTION 2018/19	PROJECTION 2019/20	5 YEAR CAGR
NET PROFITS BEFORE DISTRIBUTIONS AND STRATEGIC INITIATIVES	**146.7**	**148.7**	**153.9**	**156.4**	**159.4**	**1.7%**
STRATEGIC INITIATIVES NET PROFIT CONTRIBUTION						
OFFSHORE BETTING	-	-	4.9	8.9	11.9	
OTHER KEY STRATEGIC INITIATIVES	-	(5.0)	(12.0)	19.7	29.2	
TOTAL STRATEGIC INITIATIVES NET PROFIT CONTRIBUTION	**-**	**(5.0)**	**(7.1)**	**28.6**	**41.1**	
REPORTED NET PROFIT BEFORE DISTRIBUTIONS	**146.7**	**143.7**	**146.7**	**185.0**	**200.6**	**6.5%**
Made up of:						
BETTING NET PROFIT	137.3	133.4	135.3	172.5	187.0	6.4%
GAMING NET PROFIT	15.2	16.4	17.8	18.9	20.0	5.6%
RIU COSTS	(5.8)	(6.0)	(6.3)	(6.4)	(6.5)	(2.2)%
STRATEGIC INITIATIVES CAPITAL INVESTMENT						
OFFSHORE BETTING	-	-	-	-	-	
OTHER KEY STRATEGIC INITIATIVES	-	8.8	23.4	15.0	8.4	
TOTAL STRATEGIC INITIATIVES CAPITAL INVESTMENT	**-**	**8.8**	**23.4**	**15.0**	**8.4**	

WATERFALL - FROM 2016/17 FORECAST TO 2017/18 BUDGET



FINANCIAL METRICS

EXCLUDING STRATEGIC INITIATIVES

Years ending 31 July	ACTUAL 2015/16	FORECAST 2016/17	BUDGET 2017/18	PROJECTION 2018/19	PROJECTION 2019/20
OPERATING EXPENSES/TOTAL REVENUE RATIO	39.4%	38.8%	37.7%	38.1%	38.1%
NET BETTING REVENUE MARGIN %	12.4%	12.5%	12.1%	12.2%	12.1%
NET GAMING REVENUE MARGIN %	5.8%	5.7%	5.7%	5.7%	5.7%
EARNINGS BEFORE INTEREST, DEPRECIATION AND DISTRIBUTIONS	163.3	165.2	170.1	173.3	176.4
DEPRECIATION AND AMORTISATION	16.0	15.9	15.8	16.4	16.5
CAPITAL EXPENDITURE	12.5	12.0	16.0	16.0	16.0

INCLUDING STRATEGIC INITIATIVES

Years ending 31 July	ACTUAL 2015/16	FORECAST 2016/17	BUDGET 2017/18	PROJECTION 2018/19	PROJECTION 2019/20
OPERATING EXPENSES/TOTAL REVENUE RATIO	39.4%	39.7%	40.2%	37.4%	35.1%
NET BETTING REVENUE MARGIN %	12.4%	12.5%	12.1%	14.0%	14.4%
NET GAMING REVENUE MARGIN %	5.8%	5.7%	5.7%	5.7%	5.7%
EARNINGS BEFORE INTEREST, DEPRECIATION AND DISTRIBUTIONS	163.3	160.8	166.0	206.5	221.6
DEPRECIATION AND AMORTISATION	16.0	16.5	18.3	20.3	20.4
CAPITAL EXPENDITURE	12.5	20.8	39.4	31.0	24.4

DISTRIBUTIONS

Years ending 31 July	($M)				
	ACTUAL 2015/16	FORECAST 2016/17	BUDGET 2017/18	PROJECTION 2018/19	PROJECTION 2019/20
BETTING					
DISTRIBUTIONS TO RACING CODES	135.3	136.2	150.8	150.8	172.2
TOTAL DISTRIBUTIONS FROM BETTING NET PROFIT	135.3	136.2	150.8	150.8	172.2
PROFIT RETAINED FOR INVESTMENT OR DISTRIBUTION	2.0	(2.8)	(15.5)	21.7	14.8
BETTING NET PROFIT	**137.3**	**133.4**	**135.3**	**172.5**	**187.0**
GAMING					
DISTRIBUTIONS APPLIED TO RACING INDUSTRY [1]	8.9	11.4	12.1	13.0	13.9
DISTRIBUTIONS APPLIED TO NZRB RACE FORM PUBLICATION EXPENSES [2]	2.1	1.6	1.2	1.2	1.2
DISTRIBUTIONS APPLIED TO NZRB EML EXPENSES [3]	0.7	0.9	0.9	0.9	0.9
DISTRIBUTIONS TO SPORTING EXTERNAL BODIES [4]	3.0	3.3	3.6	3.8	4.0
DISTRIBUTIONS FROM PRIOR YEAR UNDISTRIBUTED GAMING SURPLUS	(0.3)	(0.8)	(0.0)	(0.0)	(0.0)
TOTAL DISTRIBUTIONS FROM GAMING NET PROFIT	14.4	16.4	17.8	18.9	20.0
PROVISION FOR UNDISTRIBUTED GAMING SURPLUS	0.8	0.0	0.0	0.0	0.0
GAMING NET PROFIT	**15.2**	**16.4**	**17.8**	**18.9**	**20.0**
RIU					
IMPACT OF CONSOLIDATION OF RIU	(5.8)	(6.0)	(6.3)	(6.4)	(6.5)
TOTAL DISTRIBUTIONS	**143.9**	**146.6**	**162.3**	**163.3**	**185.7**
TOTAL NET PROFIT	**146.7**	**143.7**	**146.6**	**185.0**	**200.5**

1 The distributions to the racing industry represent the payments for the racing integrity costs, paid for under Racing Authorised Purpose of the NZRB's Class 4 Gaming Licence. These costs for the Budget 2017/18 year include the following:

RIU	$6.28 million
Judicial Control Authority	$1.35 million
NZ Racing Laboratory Services	$1.75 million
Infrastructure Development	$0.5 million
Youth Recruitment & Retention	$0.25 million
Stakes	$1.10 million
Other	$0.92 million

2 Distributions to recover race form publication expenses relates to the application of funds from Gaming to reimburse certain race form publication expenses under the Racing Authorised Purpose.

3 Distributions to recover Events, Marketing and Logistics (EML) expenses relates to the application of funds from Gaming to reimburse certain EML expenses under the Racing Authorised Purpose.

4 The NZRB has determined that up to 20% of Gaming Net Profit (Net Proceeds) shall be distributed for Sports Authorised Purposes.

STATEMENTS OF FINANCIAL POSITION

Years ending 31 July	($M)				
	ACTUAL 2015/16	FORECAST 2016/17	BUDGET 2017/18	PROJECTION 2018/19	PROJECTION 2019/20
CURRENT ASSETS					
CASH AND CASH EQUIVALENTS	30.8	25.1	18.6	18.6	24.3
TRADE AND OTHER RECEIVABLES	11.1	9.7	9.7	10.4	11.0
NON-CURRENT ASSETS HELD FOR SALE	-	-	-	-	-
OTHER FINANCIAL ASSETS	31.0	32.2	23.4	23.5	23.6
OTHER CURRENT ASSETS	1.5	1.5	1.5	1.5	1.5
TOTAL CURRENT ASSETS	**74.9**	**68.9**	**53.7**	**54.5**	**61.0**
NON CURRENT ASSETS					
PROPERTY, PLANT AND EQUIPMENT	44.9	51.1	60.1	64.6	65.0
INTANGIBLE ASSETS	14.7	10.7	20.7	25.5	26.2
OTHER FINANCIAL ASSETS	2.7	2.9	4.2	4.2	4.2
TOTAL NON CURRENT ASSETS	**65.0**	**67.5**	**87.6**	**97.0**	**98.0**
TOTAL ASSETS	**139.9**	**136.4**	**141.2**	**151.5**	**158.8**
CURRENT LIABILITIES					
TRADE AND OTHER PAYABLES	24.8	22.8	22.7	23.4	23.9
CUSTOMER BETTING ACCOUNT DEPOSITS AND VOUCHERS	24.5	25.7	25.9	26.0	26.1
OTHER FINANCIAL LIABILITIES	5.1	5.1	5.1	5.1	5.1
DERIVATIVE LIABILITIES	-	-	-	-	-
TAXATION PAYABLE	4.6	4.1	4.2	4.3	4.3
PROVISIONS	3.0	3.5	3.5	3.5	3.5
TOTAL CURRENT LIABILITIES	**62.0**	**61.2**	**61.4**	**62.3**	**63.2**
NON CURRENT LIABILITIES					
OTHER FINANCIAL LIABILITIES	3.0	2.7	22.9	10.2	1.8
PROVISIONS	1.1	1.1	1.1	1.1	1.1
TOTAL NON CURRENT LIABILITIES	**4.1**	**3.8**	**24.0**	**11.3**	**2.9**
TOTAL LIABILITIES	**66.1**	**65.0**	**85.4**	**73.6**	**66.0**
NET ASSETS/TOTAL EQUITY	**73.8**	**71.4**	**55.8**	**77.9**	**92.9**

STATEMENT OF ACCOUNTING POLICIES

In preparing its annual financial statements, NZRB has adopted accounting policies in accordance with generally accepted accounting practice in New Zealand, as required under the Racing Act 2003 and the Financial Reporting Act 2013 which comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) as appropriate for Tier 1 for-profit entities. The significant accounting policies are discussed below; please refer to the most recent audited financial statements for details of all accounting policies in place.

BASIS OF PREPARTION

Reporting entity and statutory base

The New Zealand Racing Board (NZRB) is a statutory body established by the Racing Act 2003. In previous periods, the customer betting accounts and betting vouchers offered were debt securities within the meaning of the Securities Act 1978 and NZRB was therefore an issuer for the purposes of the Financial Reporting Act 1993. The Financial Markets Conduct Act 2013 (FMCA) has replaced the Securities Act 1978 during the period. The customer betting accounts and betting vouchers do not fall within the scope of the FMCA, and therefore NZRB is not a FMC reporting entity. NZRB however, is required to prepare financial statements that comply with Generally Accepted Accounting Principles (GAAP) under the Racing Act 2003. On this basis, NZRB has transitioned to the Financial Reporting Act 2013 which defines GAAP in New Zealand. The NZRB is domiciled in New Zealand.

The principal objectives of NZRB as outlined in the Racing Act 2003 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 financial statements presented are for NZRB and its subsidiaries (together the Group). The Group comprises NZRB, Racing Integrity Unit (RIU) and the Betting Accounts and Betting Vouchers Trust.

Statement of compliance

These consolidated financial statements comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) as appropriate for Tier 1 for-profit entities, and with International Financial Reporting Standards.

Basis of measurement

These financial statements have been prepared on the historical cost basis which is based on the fair value of the consideration given in exchange; these are presented in New Zealand dollars ($) which is the NZRB's functional currency.

Changes in accounting policies

All the accounting policies have been applied consistently to all periods presented in these financial statement.

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 comparative accounting period presented in these financial statements.

The following new standards, amendments or interpretations to existing standards were in issue but not yet effective and have not yet been applied by NZRB:

	Effective
- NZ IFRS 9, Financial instruments	FY 2019
- NZ IFRS 15, Revenue from contracts with customers	FY 2019
- NZ IFRS 16, Leases	FY 2019

NZRB will adopt these new or amended standards and interpretations in the period that application of the standard is required; a full impact analysis is yet to be performed with respect to these new standards.

Critical accounting estimates and assumptions

NZRB has determined that there are no critical judgements in applying accounting policies that have a significant effect on the amounts recognised in the financial statements. The preparation of the financial statements in conformity with NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Basis of consolidation

The consolidated financial statements incorporate the assets and liabilities of all material entities controlled by NZRB as at each reporting period and the results of the operations of such entities for the year.

NZRB controls an entity when NZRB is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Controlled entities are consolidated from the date on which control is transferred to NZRB and deconsolidated from the date that control ceases. Balances between controlled entities, including inter-entity transactions, are eliminated.

Taxes

The NZRB Parent is exempt from New Zealand income tax pursuant to section CW 47 of the Income Tax Act 2007. However, NZRB pays business taxes, duties, levies and similar charges relating to its operations. NZRB may be subject to foreign income tax on certain income earned overseas.

Operating segments

NZRB has two operating segments:

- *Betting operations:* Operations relating to providing totalisator and fixed odds betting for racing and sports. Betting operations include broadcasting and racing services provided to the racing Codes; and
- *Gaming operations:* Operations relating to the provision of Gaming activities.

In addition to the two operating segments, the RIU operations and the Betting Account and Betting Vouchers Trust, including the impact of consolidation adjustments are presented separately in 'Other'.

Costs specifically associated with Gaming have been allocated to the Gaming operating segment. Those costs associated with corporate services, that are not directly attributable to the Gaming operations such as communications, legal, finance and human resources are included within the Betting operations.

NZRB's Chief Executive Officer has been identified as NZRB's chief decision maker for the purpose of applying segment reporting. The segment results disclosed are based on those segments reported to the Chief Executive Officer and used by NZRB to analyse its business. The RIU operations are not considered an operating segment as financial information is not reported to the Chief Executive.

Distributions

NZRB's net profit from its Betting operations is distributed to the racing industry (directly through the racing Codes) in accordance with the Racing Act 2003.

Distribution payments include a funding component which is made directly to the racing Codes, based on funding agreements with the Codes. Any additional distribution becomes payable upon approval by NZRB.

Distributions of Gaming net profit are determined separately from distributions from Betting net profit. Under the NZRB's Class 4 Gaming licence, NZRB distributes funds to amateur sports organisations and applies funds to NZRB costs to cover specific industry costs which are for racing authorised purposes. These costs include Judicial Control Authority (JCA), RIU, Racing Laboratory Services and costs incurred by NZRB in relation to the publication of race form and the racing calendar. All distributions from Gaming net profit are approved by NZRB's Net Proceeds Committee under a grants policy that ensures that the authorised purpose is consistent with the purpose specified in NZRB's Class 4 Gaming licence.

Undistributed Gaming net profit from prior year represents the payments made to the Racing Industry and Sports Authorised Purposes from the prior year provision for undistributed Gaming net profit. As these amounts were undistributed in the prior year, they are considered to be distributions in the current year.

The Gambling (Class 4 Net Proceeds) Regulations 2004 requires Gaming surplus to be distributed for authorised purposes and cannot be retained by the business. Consequently, any undistributed surplus at year end is recorded as a provision in the Statements of Financial Position.

Revenue

Betting turnover comprises turnover from totalisator and fixed odds betting:

- Totalisator turnover is recognised once the outcome of the betting event is confirmed.
- Fixed odds turnover is recognised on those bets that are placed with a fixed return, once the outcome of the betting event is known and the result confirmed. For multi fixed odds bets, turnover is only recognised when the last leg is resulted.

Gaming turnover is the gross proceeds derived from gaming machines. NZRB holds a licence to operate gaming machines issued by the Department of Internal Affairs under the Gambling (Class 4 Net Proceeds) Regulations 2004.

Betting and Gaming turnover is measured at the fair value of the consideration received, net of any refunds and rebates, and inclusive of GST.

Dividends payable on Betting and Gaming operations are recognised once the event has resulted, at the fair value of the consideration to be paid. Any unclaimed dividends on totalisator and fixed odds revenue are recognised as unpaid dividends within other financial liabilities. Dividends paid on Gaming turnover represents payouts to customers from the gaming machines, including jackpot payouts.

Net Betting and Gaming revenue represent the net win or loss to NZRB. Net Betting and Gaming revenue is comprised of turnover less dividends paid or payable, less duties and GST.

Problem gambling levies and Betting and Gaming machine duties are considered sales taxes, and are therefore included within Net Betting and Gaming revenue, consistent with GST.

Revenue earned on racing shown overseas represents fees received from international betting agencies on the export of New Zealand racing events. This income is recognised based on the turnover taken by the international betting agencies on exported racing events and is recognised at the time that the racing event takes place.

Other revenue

NZRB's other revenue comprise of the following:

- **Gain on disposal of property, plant and equipment** is the difference between the net proceeds from disposal and the carrying amount of the item disposed and is recognised when the risks and rewards of ownership have transferred to the buyer (this is usually the date when the title is transferred).
- **Interest income** is earned on cash and cash equivalents, short-term deposits, corporate bonds and industry loans and recognised using the effective interest method when it is earned.
- **Merchant fee revenue** is income derived from credit card transaction fees charged to customers.
- **Racing services revenue** represents income earned by NZRB from providing on-course race day services to racing clubs. Racing services income is recognised at the time that the racing event takes place.
- **Revenue from Broadcasting within New Zealand** represents advertising income earned on NZRB's Trackside TV channels and Trackside Radio and is subject to levies under the Broadcasting Act 1989.
- **All other revenue** is measured at the fair value of the consideration given and is recognised when risks and rewards transfer from NZRB.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash at bank and call deposits with an original maturity of three months or less.

Cash denominated in foreign currencies is translated into New Zealand dollars at the spot rate at the reporting date. All differences arising on settlement or translation of monetary items are taken to profit or loss and included within other income.

Trade and other receivables

Trade and other receivables are initially recognised at the fair value of the amounts to be received. They are subsequently measured at amortised cost, using the effective interest method, less any provision for impairment loss due to doubtful debts.

NZRB maintains a provision for impairment losses when there is objective evidence of non-NZRB owned retail outlets being unable to make required payments. Any impairment provision for doubtful debts is calculated on the individual debtor level. In assessing the provision, factors such as a retail outlets past collection history, the age of receivable balances and the level of activity in retail outlet accounts are taken into account. Bad debts are written-off against the provision for doubtful debts in the period in which it is determined that the debts are uncollectible. If those debts are subsequently collected then a gain is recognised in profit or loss.

Other financial assets

Other financial assets are initially recognised at their fair value when NZRB becomes a party to the contractual provisions of a financial instrument. Initial fair value is considered to be the cost price of the instrument, except for industry loans.

Where industry 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 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.

Betting Accounts and Betting Vouchers Trust short-term deposits are funds held in trust to cover the balances of the customer betting account deposits and vouchers liability. Subsequent to initial measurement, all debt instrument financial assets are measured at amortised cost, using the effective interest method.

At the end of each reporting period and whenever circumstances warrant, other financial assets are assessed for objective evidence of impairment. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that the loss event had an impact on the estimated future cash flows of that asset that can be estimated reliably. Any financial asset impairment loss is recognised within other expenses in profit or loss.

Trade and other payables

Trade and other payables are recognised when NZRB becomes obliged to make future payments resulting from the purchase of goods and services. These financial liabilities are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method. All trade and other payables are non-interest bearing other than the racing code distributions payable.

Employee entitlement liabilities for annual leave and other contractual payments expected to be settled within 12 months of the reporting date are recognised in other payables, in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

Customer betting account deposits and vouchers

The customer betting account deposits and vouchers balance represents the amount held in customers' TAB betting accounts and outstanding betting vouchers. A betting voucher is a voucher (including gift vouchers) purchased by customers that can be used to place a bet or can be exchanged for cash. A liability is recognised when a customer deposits cash into their betting accounts or when a betting voucher is purchased. The resulting liability is initially measured at fair value and subsequently at amortised cost using the effective interest method.

The customer betting account deposits and vouchers liability is non-interest bearing. The liability is derecognised when either a deposit or voucher is redeemed or used to place a bet, or in accordance with the Betting Rules, the betting account or voucher is deemed inactive.

Property, plant and equipment

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

Depreciation is calculated on a straight-line basis so as to allocate the cost of each asset over its expected useful life (reviewed annually) to its estimated residual value. Depreciation is recognised within 'Depreciation and Amortisation Expenses' in the profit or loss. Land is not depreciated.

ESTIMATED USEFUL LIFE	
Buildings (at deemed cost)	10-40 years
Leasehold improvements (shorter of lease period or estimated useful life)	6-7 years
Computer hardware	2-7 years
Motor vehicles	4-7 years
Operations and trackside equipment	5-15 years
Gaming machines	5 years
Other (mainly consists of laboratory equipment, furniture and office equipment)	5-10 years
Finance lease asset (term of lease)	10 years

The carrying amounts of property, plant and equipment are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated to determine the extent, if any, of the impairment loss recognised in the profit or loss.

Intangible assets

Broadcasting licences, software and other intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses.

NZRB develops specialised software for its own use in the business. The cost of internally generated software comprises all directly attributable costs necessary to create and prepare the asset to be capable of operating in the manner intended by management, including direct labour costs. No borrowing costs are capitalised.

Amortisation is charged on a straight-line basis over the estimated useful lives of the asset and is recognised within 'Premises and Equipment Expenses' in the profit or loss. The estimated useful life and amortisation method are reviewed annually.

ESTIMATED USEFUL LIFE	
Software	3-7 years
Broadcasting licences	14-20 years
Lease intangibles (term of lease)	2-6 years

The carrying amounts of intangible assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated to determine the extent, if any, of the impairment loss recognised in the profit or loss.

Non-current assets held for sale

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

Other financial liabilities

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 certain future dividend pools for the originating racing or sports code.

Finance leases, which effectively transfer to NZRB substantially all the risks and benefits of ownership of the leased assets, are capitalised at the lower of the asset's fair value or the present value of the minimum lease payments at inception of the lease.

Unclaimed dividends represent the liability to winning customers on betting activities that have yet to be claimed. Unclaimed dividends are recognised at the time the related revenue is recognised which is when the outcome of the betting event is known. This liability includes unclaimed dividends that are less than six months old. Unclaimed dividends equal to or greater than six months are derecognised and recorded as a reduction in dividends in profit or loss.

Unresulted turnover represents open totalisator and fixed odds betting positions. Open betting positions are those where customers have placed bets and where at balance date the event to which the bet relates has not occurred. These open betting positions are considered derivative financial instruments for financial reporting purposes. Unresulted turnover is initially measured at fair value on the date the bet is placed. Fair value is the amount placed on the bet. Subsequently, derivative financial instruments are re-valued to their fair value at each reporting date. NZRB has determined that the value of the balance upon initial recognition approximates fair value.

Provisions

Provisions are recognised when the following three conditions are met:

- NZRB has a present obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of resources with economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

The amount of a provision represents the best estimate of the expenditure required to settle the obligation at the end of the reporting period. The discount rates used are government stock rates consistent with the term of the obligation.

Categories of financial instruments

FINANCIAL ASSETS

NZRB classifies its financial assets in the following categories: held to maturity and loans and receivables.
The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that NZRB has the intention and ability to hold to maturity other than those that meet the definition of loans and receivables.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Financial assets are assessed for impairment at each reporting date. Impairment is recognised in profit or loss.

FINANCIAL LIABILITIES

NZRB classifies its financial liabilities under 'financial liability measured at amortised cost' category with the exception of derivative liabilities which is categorised as 'financial liability through profit or loss'.

Contingent liabilities

Where NZRB enters into financial guarantee contracts to guarantee the indebtedness of third party entities, NZRB considers these to be insurance arrangements under NZ IFRS 4 Insurance Contracts and accounts for them as such. A liability is recognised when it becomes probable that NZRB will be required to make a payment under the guarantee. If it becomes probable, NZRB will recognise an expense and corresponding liability based on estimates of future cash flows under the contract.

NZRB assesses at the end of each reporting period whether its recognised liability is adequate in comparison to the estimates of future cash flows under the contract. If that assessment shows that the carrying amount of the liability is inadequate, the entire deficiency shall be recognised in profit or loss.

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Mauro Barsi
Greyhound Code Nominee

Bill Birnie
Independent Member

Graham Cooney
Independent Member

Rod Croon
Harness Code Nominee

Greg McCarthy
Thoroughbred Code Nominee

Alistair Ryan
Independent Member

RACING BOARD LEADERSHIP TEAM

John Allen
Chief Executive Officer

Patricia Bolger
General Manager - People

Shaun Brooks
General Manager - Finance

Stephen Henry
General Manager - Services

Andy Kydd
General Manager - Media & Content

Glen Saville
General Manager - Betting

Dianna Taylor
General Manager - Technology

Gary Woodham
General Manager - Customer