NEW ZEALAND
RACING BOARD

Statement Of Intent
2016–2018

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IN SUMMARY

- The New Zealand Racing Board (NZRB) continues to operate in a challenging environment. Changing customer preferences to more Fixed Odds Betting and lower-margin sports betting products has seen an impact on Net Profit; and as more customers move to digital channels, investment in NZRB's technical abilities is required to remain competitive.
- It is also clear that NZRB's cost growth, as a percentage, is in excess of its total income growth, and this is impacting on its ability to maximise returns to the industry and is not sustainable in its current form. The NZRB must fundamentally change its cost structure in order to better meet its responsibilities to the racing and sports industries.
- The deterioration in both net equity and free cash over the last decade has continued. The current policy of distributing 100% of profits to the racing industry while at the same time endeavouring to fund investment in assets to operate the business is unsustainable. NZRB is working closely with the racing Codes on distribution issues and what is an appropriate and sustainable policy.
- NZRB will continue to engage closely with the three racing Codes, whose participation is vital for the betterment of the overall industry. The parties need to work together to make changes in the industry to grow profitability, support long-term investment and encourage wider participation and ownership.
- Despite initial challenges, NZRB is now starting to see some positive gains from projects to grow customer engagement and activity. The Net Profit Forecast for 2014/15, excluding the gain on sale of the Petone Head Office Building of $4.9m, is $3.9m, or 2.8%, ahead of the prior year, and $2.0m, or 1.4%, ahead of the budget signalled in the previous Statement of Intent (SOI). Including the gain on sale of the Petone Head Office Building, the Net Profit Forecast for 2014/15 is for a positive variance of $8.8m, or 6.4%, above prior year, and $6.9m, or 5.0%, ahead of the budget signalled in the previous SOI.
- Learnings from 2013/14 and the current year have been incorporated into a revised plan for 2015/16. There are a series of initiatives to lower NZRB costs, there will be more transparency around the numbers and a more realistic approach to project delivery.
- NZRB's priorities over the next 12 months include an optimised domestic racing calendar, lower NZRB costs, improved services and a lift in Net Profit in subsequent years. Key projects will include changes to the channel strategy, potential outsourcing or partnering to lower costs and enhance service offerings. NZRB will be working with the racing Codes to prioritise the projects that it is focused on.
- It is NZRB's intention to continue to deliver the best possible business results for the greater benefit of the industry by working with the racing Codes to transform both NZRB and the racing industry.

FOREWORD FROM THE CHAIR

As the New Zealand Racing Board (NZRB) enters 2015/16, it does so after a tough year. While good progress was made in lifting customer engagement and acquisition, Net Profit and Net Betting Revenue growth were impacted by the changing product mix to lower-margin options, and some key projects were paused pending the arrival of a new Chief Executive Officer.

The Board welcomed Mr John Allen in the role of Chief Executive Officer in March 2015. Mr Allen brings considerable experience and proven leadership skills to the business.

The changing nature of the industry is noticeable. It is not the same environment in which we were operating even five years ago. It is clear that we must significantly recalibrate how we operate, both within NZRB and across the industry, if we are to maintain and grow this important industry in New Zealand.

It is imperative that NZRB continues to work closely with the three racing Codes to ensure the challenges are being met. NZRB is committed to a more participatory approach with them for the betterment of the industry and our ongoing initiatives. At the time of writing, there are continuing discussions on the Code Funding Model for the next year and beyond. A variety of proposals have been developed for discussion but there are differences of view between the racing Codes which we are working to align.

I would like to acknowledge Hon Nathan Guy in his role as Minister for Racing and for clearly conveying his expectations of NZRB which I talk to below.

Maximise returns to the industry

NZRB remains firmly focused on maximising funds available for distribution to the industry. The current 2015/16 business plan forecasts a Net Profit of $144.2m for the season and total distributions to the three racing Codes of $134.9m.

It is growth of this distributable Net Profit which is the bottom line for the business, and there are only two ways to make significant, achievable growth in this area – increase revenue through lifting turnover and meeting margin targets, and decrease non-turnover related expenses.

To increase net revenue, NZRB must meet the challenge of a changing product mix and customer preferences. The growth of import racing and sports betting is driving a major shift away from high margin domestic tote to lower margin fixed odds betting. Turnover has increased and, while it is a positive indicator of customer activation and engagement, has also come with a lower percentage margin which has reduced the benefit of the overall net revenue increase.

NZRB customers are increasingly coming to the business through digital channels, yet years of under-investment has meant our technical capabilities are limited and woefully behind those of our online competitors. An investment in these channels is vital to our ongoing ability to provide the services customers are looking for and to compete on an international level.

The international wagering agreements with Tabcorp expire at 30 June 2015 and NZRB has been working closely with Tabcorp with a view to renewing these important contracts. It is unlikely that NZRB will conclude agreement on all aspects under discussion by the 30 June expiry date, and therefore it is likely there will be some interim rollover agreements put in place.

Be vigilant with internal costs

As noted above, the second part of the equation to maximising returns to the industry is through managing costs. NZRB acknowledges that rising operational costs are an area of concern to both the industry and its stakeholders. A strong emphasis is being placed on unwinding costs, and we are committed to ensuring not only this tight management of internal costs is maintained, but opportunities to further reduce them are explored and implemented as soon as possible.

Address offshore betting

With the rise of digital business, in a market where home internet and smartphone usage is almost at 100% saturation and an estimated 1.9 million New Zealanders (56% of the population) shopped online in the last year, there are no such things as borders. New Zealand's geographically-isolated location has no meaning when our international online competitors are effectively on our doorstep.

While our digital channels show the largest growth, it is in the face of increasing online competition from large offshore corporate bookmakers that operate outside New Zealand's regulatory structure. Such agencies access our market without bearing the responsibilities of NZRB including paying New Zealand taxes and levies and meeting the country's responsible gambling standards. In addition, they do not distribute profits to our racing industry and sports organisations which, in turn, results in a loss of revenue to not only those industries, but the New Zealand economy.

NZRB is responding to this issue both through the ongoing development of key projects to re-architect our IT and digitise the business, and through seeking Government assistance in modernising the legislative framework to make it more responsive to the digital challenge. Late last year we welcomed Hon Nathan Guy's announcement of the creation of a working group and look forward to seeing its recommendations later this year, building on the examples and research in the United Kingdom, Ireland, France, Australia and Singapore where they have taken different approaches to addressing similar challenges.

Focus on animal welfare

Animals are part of the life blood of the New Zealand racing industry and their welfare is of utmost importance. NZRB works closely with both the Racing Integrity Unit (RIU) and Judicial Control Authority on making the safety and wellbeing of the horses and dogs a high priority for all.

Following the recent animal welfare issues experienced in Australia, the RIU has further increased their vigilance in this area. In addition, this year the NZRB established a fund created for the purpose of promoting and enhancing the industry by providing a quality racing product, whilst ensuring both animal welfare and integrity. This is in addition to the existing Racing Safety Development Fund that we thank Hon Nathan Guy for both overseeing and supporting.

Last year, we started to put NZRB on a more realistic pathway to protect and enhance New Zealand racing. This year, we look to build on our progress.

Glenda Hughes

Chair

INTRODUCTION FROM THE CHIEF EXECUTIVE OFFICER

I am pleased to present the 2016-2018 Statement of Intent for the New Zealand Racing Board (NZRB), my first since joining the business as Chief Executive Officer in March this year.

The opportunity to join NZRB, and the New Zealand racing and sports industry, is an exciting one. Since my arrival, I have spent a significant amount of time meeting and getting to know the people who keep this multi-billion dollar industry ticking, and have been impressed by the dedication and passion they have for racing and sport in New Zealand.

One message is consistent no matter who I talk to in the industry, among our stakeholders, and even within the business. We simply cannot continue on in the same way if we are to attract the investment required to revitalise the industry and NZRB, and provide a meaningful contribution to both racing and sports in New Zealand. Our focus is on growing Net Profit. That requires innovation and investment to meet changing customer requirements and real cost discipline.

Costs

Reducing our costs is an immediate priority. We need a fundamentally lower cost structure if we are to generate the profits the industry requires. The NZRB is not a large organisation, yet often behaves as if it is. We need to change our business model to create a lower cost, nimble organisation. We have already begun the process of rationalising our property footprint and reorganising the way the organisation is structured. However the real benefits will come as we move to look at outsourcing or partnering in the delivery of some of our activities and refresh our retail network to ensure we have our outlets in the right places, with the right mix of products to meet the needs of our customers.

Growing Net Betting Revenue and margins

Technology is fundamental to our future. As more and more customers move online we need to continue to broaden our online product range and refine our service offerings whether in retail, traditional telephony or digital formats. We have already begun to grow our capability, but still have a way to go with our digital platforms and retail offerings if we are to meet changing customer preferences and match competitors' offerings. For this reason we will continue to invest in projects to improve customer experience, lower costs and grow Net Betting Revenue. These include further enhancing our digital offer, implementing an automated fixed odds betting platform and working to digitise the presentation of race-field information and form data in our retail network. The growth we have experienced in customer numbers and turnover is encouraging. We need to maintain that momentum and improve our margins over the coming year.

Working with industry

Another significant project prioritised for the year is to 'monetise' (or optimise) the calendar. We have an incredible asset that is our racing calendar, yet we are not delivering the value from it that we should be. This is not something that NZRB can do alone - we will be working closely with the racing Codes and clubs on how we make the kind of changes necessary to maximise the potential of the race meetings. I have been told by virtually everyone that some rationalisation is required and that the 'hard decisions' that will be necessary will not make me popular! That is not the way I see it. It is in all our interests that the calendar is structured to optimise returns to the industry, while recognising the specific requirements for racing to reflect the national footprint of our industry and the importance of community engagement. We also need to consider the training and development requirements of our animals across all racing Codes. I believe the industry can work together in this space. It is important we do so. Not just because it is in our financial interest, but because it signals to key stakeholders that we have to get our act together.

NZRB has already taken the first steps towards significant strategic change, both for the organisation, and for the wider racing and sports industry. There is a lot to do and we have to move quickly as an industry to grow public appreciation of the contribution we make to the country and drive participation and investment. I am excited by the opportunities in front of us. If seized by the Board and industry, we should be able to significantly out-perform the projected results for 2016/17 and beyond.

John Allen

Chief Executive Officer

OBJECTIVES AND ACTIVITIES UPDATE

NEW ZEALAND RACING BOARD STRATEGY

New Zealand Racing Board (NZRB) has developed a strategy and a series of projects to provide a pathway through to 2017/18.

The strategy was developed following extensive analysis of NZRB's long-term performance trends and challenges, customer insights and also considered issues that have been faced by the New Zealand racing industry for decades. The strategy focuses on addressing some immediate challenges, while also building a foundation for change that is needed both within NZRB and across the industry.

The core components of the strategy include a set of key projects that will be delivered over the next three years. NZRB's focus needs to be on the execution and delivery of these, taking on board the learning from the last few years.

Cost vigilance and growth in NZRB profits are essential to deliver increased returns to the industry so that stakes and return to owners can improve and build a viable industry for the future.

REVIEW OF 2014/15

The focus for the 2014/15 year has been to lift customer engagement and acquisition to drive business performance for long-term growth. May YTD racing Net Betting Revenue is up 3.6% on prior year while sports Net Betting Revenue is up 28.6%. Net Gaming Revenue is up 23.6% on prior year.

Betting margin performance has, however, been impacted by the continued shift in customer preference towards fixed odds betting (FOB) products. For May YTD, high Betting margin tote products comprised only 58.6% of total racing turnover compared to 66.2% for last year. Furthermore, a higher percentage of favourites winning across both racing and sporting events, and increased lower margin customer business have contributed to reducing the Betting margin percentage.

Cost management remains a focus and cost-reduction initiatives will be escalated in 2015/16.

The solid growth in betting activity in the past 2-3 years has seen TAB share (betting) of the New Zealand gambling market grow to 14.9% (calendar year end 2014), the highest level since 2001. Customer metrics have also shown favourable movements year-on-year with an additional 20,982 (+15.2%)[1] active TAB account customers and people who have placed a bet with TAB in the past seven days (across all channels) also up 13.0%[2] . A range of new products and offers were rolled out to customers throughout the year.

Development and execution of a number of key projects have continued to progress. A major challenge is the high cost of projects dependent on technology where investments need to be made, but there is not an immediate corresponding uplift in Net Profit performance. These include key projects such as Re-architect IT, Broadcasting and Digitise the Business which face significant investment due to aged and fully-depreciated assets.

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[1] Status update as at YTD May 2015

[2] Source: Nielsen Consumer Media Insights Q4 2014 v Q4 2013 (rolling 4 quarter average)

Despite these challenges, we are starting to deliver on forecast benefits and some highlights[3] from the 2014/15 programme of work include:

- **Broadcasting**
  The launch of TAB Trackside 1 and 2 on the SKY TV platform. The new content model is on track to deliver an additional 8,000 races with an incremental turnover likely to be 29% ahead of initial targets.
- **Digitise the Business**
  The TAB Mobile App was launched in September 2014. As at May 2015, it has achieved a turnover of $20.1m. Watch & Bet (sport and racing online streaming) has continued to provide customers with an integrated channel experience.
- **VIP**
  VIP performance has recovered in 2014/15 following a series of tactical initiatives and is forecast to be ahead of budget.
- **Strategic Retail Growth (including gaming)**
  Three new gaming sites were launched in 2013/14. Combined turnover activity of TAB Gisborne and TAB Trax is 25% ahead of budget expectations; TAB Exchange did not trade from late August 2014 due to a major fire in the adjacent building.
- **Government Relations**
  Support received from the Minister for Racing for action to address offshore betting and clarification around taxation.

The KPMG performance and efficiency audit was completed in April 2014 and commented favourably about management and strategic changes made and direction set for the future. KPMG made recommendations for improvements in the areas of execution of strategy, statutory functions and governance and management mechanisms. Continued progress is being made on implementing the recommendations made.

OUTLOOK FOR 2015/16

Moving into the new financial year, NZRB must balance the need to manage margins and costs, whilst also deliver growth in net profit that is consistent with income growth.

The forecast for the next three years is challenging and the need to continue investing in the business will put further pressure on these numbers. However, investment in infrastructure and key projects must be made to ensure the NZRB remains competitive and relevant to customers, and delivers longer term profit for the sustainability of the racing industry.

Customer engagement and acquisition remains a key focus and the 2015 Rugby World Cup in October provides another opportunity to build on the momentum of the 2015 Cricket World Cup.

NZRB recognises that its cost base is too high and addressing this is a matter of priority. This includes looking at the organisation's size and structure and recognising the need to become small, nimble and quicker to market. It also will involve an evaluation of lower cost platforms that are more efficient, yet more agile, in meeting customer needs.

NZRB management undertook a thorough review of the key projects including scope; milestones, timings and resource requirements; estimated costs for the next three years; estimated benefits; interdependencies and assumptions. Management discussed these with the Board in late 2014 and it was agreed that the Chief Executive Officer (CEO) would take the lead on deciding the final set of priorities for 2015/16.

A reduced portfolio of projects has thus been prioritised for 2015/16. The portfolio consists of six key projects (Re-architect IT, Digitise the Business, Government Relations, Right Size and Reformat Network, Cost Recovery Model, Monetise the Racing Calendar). Cost Recovery Model encompasses an industry costs contribution model and a review of commercial and pricing economics.

[3] Status update as at YTD February 2015

The priorities for 2015/16 can be broadly categorised into the following four areas:

- **Re-engineering the NZRB cost model**
  To be smaller, nimble and more efficient.
- **Core technology**
  To continue to invest in the core IT architecture programme to build a resilient business model, whilst also investing in newer technology such as digital to meet customer needs.
- **FOB platform**
  FOB continues to grow its share of turnover as customers opt for this product. NZRB needs to ensure it has a fully-functional platform that offers customers more options and speed of service, and also provides tools to manage risks and maximise margins.
- **Monetise the racing calendar**
  The racing calendar provides a lever that can assist NZRB, the Codes and clubs to address long-standing industry issues including competitiveness of domestic races, improved returns from domestic races, investment in infrastructure, funding and distribution to the industry.

Engagement with the industry remains a top priority for NZRB, along with a partnership approach to major industry-related projects. The racing Code CEOs were part of the 2015 NZRB Board strategy day which identified joint priorities that the parties will work on.

NZRB and the racing Code CEOs have committed to work together over the next 12 months. All parties agree that change is required, but that it has to be supported with clear messages for all industry participants that cover the rationale, benefits and risks of any such change. NZRB and the racing Codes are aware that they need to adopt an inclusive leadership stance and create a cohesive vision for the industry by working closely with a broad cross-section of industry participants.

FINANCIAL COMMENTARY FOR NEW ZEALAND RACING BOARD GROUP

Financial position

As at 31 May 2015, the New Zealand Racing Board (NZRB) has Net Equity of $70.8m and Free Cash[4] of $28.3m. While this is a sound position from a solvency perspective, the ten-year trend of deterioration in the overall quality of the Balance Sheet has continued, also highlighting that the current trend is untenable long-term and changes must be made.

Between 31 July 2013 and 31 May 2015, Net Equity increased from $69.5m to $70.8m while Free Cash decreased from $36.6m to $28.3m. This has been partially mitigated by the gain on sale of properties recorded in the last two years which boosted Net Equity by $5.6m, and with the funds received from these sales also lifting Free Cash by $13.6m (excluding interest). However, it is important to note that without these property sales, as at 31 May 2015 the Free Cash position would have been $14.7m and Net Equity $65.2m. NZRB needs to hold Free Cash balances of approximately $10.0m on a regular basis to meet ongoing working capital needs.

As signalled in the 2015-17 Statement of Intent (SOI), the current policy of distributing 100% of profit to the racing industry, whilst at the same time endeavouring to fund the increased investment necessary to operate and grow the business, is unsustainable. As a result, NZRB is working closely with the Codes on distribution issues and what is an appropriate and sustainable distribution policy.

2014/15 Forecast results

The half-year forecast results for 2014/15 are based on the trends apparent from the first six months' actual results combined with the outlook for the remainder of the year.

- Net Profit is predicted to increase by $8.8m (6.4%) on last year to $145.8m, with Betting Profit up by $1.2m (0.9%), Gaming Profit up by $3.0m (30.9%) and the gain on sale of the Petone building $4.9m. For reporting purposes, the gain on sale of Petone is included in Betting Profit under Other Income. Racing Integrity Unit (RIU) is expected to increase its loss from 2014 by $(0.3m).
- Net Betting Revenue is forecast to reach $273.9m, or $18.4m (7.2%) ahead of last year. As noted by the Chair, while Net Betting Revenue has grown it has also been impacted by the continuing decline in the higher margin domestic tote turnover as customers move to lower margin fixed odds betting (FOB). Racing and Sport fixed odds products, both of which earn substantially lower margin than that of the Racing tote product, have shown significant increases in turnover. The increased level of rebating and incentivising to customers has also had an impact on Net Betting Revenue.
- Net Gaming Revenue is also expected to exceed both budget (up 10.5%) and the prior year (up 26.7%). The increase on prior year has been driven by an increased number of gaming sites, the full-year benefit of having the reopened Courtenay Place site and upgraded gaming machines.
- Other Income is projected to be $48.5m, or $6.7m (16.0%) ahead of last year, driven largely by higher export income generated on New Zealand racing ($0.9m), increased broadcasting revenue ($1.2m) and the Petone building gain on sale ($4.9m).

[4] 'Free Cash' is cash and cash equivalents, plus short-term deposits excluding term deposits, held by the Betting Accounts and Vouchers' Trust.

- Operating Expenses are forecast to be $144.2m, or $15.9m (12.4%) above the prior year, as signalled in last year's SOI. The main drivers for the forecast increase are:
  - Increased Staff Expenses ($5.3m, or 8.9%, above prior year) driven from increased project activity, particularly the TAB Mobile App, the Enterprise Service Bus and the IT infrastructure programme.
  - Increased Depreciation and Amortisation ($3.1m, or 23.7%, above prior year and included within Premises and Equipment costs) due to the higher level of capital expenditure and investment that has occurred over the last 18 months.
  - Increased Property Rent ($0.7m, or 10.3%, above prior year and included within Premises and Equipment costs) due to the sale and leaseback of the Petone building and the Auckland property changes.
  - Increased Broadcasting costs ($3.6m, or 35.8%, above prior year and included within Other Expenses) due to the new Broadcasting solution with NZ Live, together with the move to the new, improved dual channel model.

    Note: The changes to the dual channel model are also expected to result in an increase in Net Betting Revenue of approximately $6.2m for the year.
- No provision for restructuring is currently included in the forecast.

2015/16 Budget

The 2015/16 Budget is based on a return to more 'normal' business increases after the significant lift in turnover due to the change in the broadcasting model which resulted in approximately 8,000 more Australian races being broadcast for betting in New Zealand.

- Net Profit is budgeted to be $144.2m. This represents a decrease year on year of $1.6m (-1.1%) from the 2014/15 Forecast, which includes the gain on sale of $4.9m. Excluding the impact of the gain on sale of the Petone building, the Net Profit is budgeted to increase by $3.3m (2.3%) with Betting Profits ahead of the prior year by $1.2m (0.9%) and Gaming Profits ahead by $2.1m (16.5%).
- Net Betting Revenue is expected to continue to be impacted by overall margin decline due to customer preferences moving from Domestic Racing Tote to more FOB and lower–margin Sports betting products, and is budgeted to be $0.4m (0.1%) above 2014/15. The current wagering agreements with Australian wagering operators are in the process of renegotiation and, depending on the outcome; there may be an impact on future financial results. Betting Turnover is budgeted to be $2,126.7m, which represents an increase of $30.4m or 1.5%.
- Net Gaming Revenue is budgeted to increase by $4.0m (21.1%) on the 2014/15 Forecast -reflecting the continued benefit of additional sites, improved layouts and new machines.
- Other Income is budgeted to be $45.7m, or $2.8m (-5.8%) behind the 2014/15 Forecast. Excluding the impact of the gain on sale of the Petone building of $4.9m, Other Income is budgeted to increase by $2.1m (4.8%) on the 2014/15 Forecast, supported by an increase in income ($3.7m, or 23.6%) from the export of New Zealand racing.
- Operating Expenses are budgeted to increase by $7.1m (4.9%) with significant drivers of these being:
  - Upfront costs arising from the project for outsourcing IT infrastructure. These are expected to be $2.3m.
  - An increase of $2.2m from the full year impact of ongoing costs, such as software licencing, repairs and maintenance resulting from projects undertaken in the 2014/15 year. These projects included Mobile App, Character Generator Interface technology, Enterprise Service Bus and IT security. Depreciation and amortisation is expected to increase by $1.8m (or 11.1%) above the 2014/15 Forecast due to the growth in capital expenditure during the 2014/15 year as well as forecasted capital expenditure expected in the 2015/16 year.
  - Broadcasting costs are expected to increase by $0.4m above the 2014/15 Forecast and include costs associated with the new radio show that is now produced in-house. This is offset with increased advertising revenue included in Other Income.
  - Gaming money applied to NZRB race form publication costs is budgeted to remain at $2.0m.
- Capital expenditure on projects is budgeted to be $20.0m, which is a reduction on prior year of $4.0m (-16.7%).

2017 and 2018 years

The trends outlined for the 2015/16 budget are expected to continue in the following years as income growth returns to more normal organic levels and expenses increase at a level that is broadly consistent with the Consumer Price Index (CPI).

It is important to note that the 2016/17 and 2017/18 forecasts are high level extrapolations of the 2015/16 detailed budget information based on known trends, and do not include any new projects.

Risks and opportunities

Whilst NZRB is looking to achieve meaningful growth for the organisation and benefit of the wider industry, the budget and SOI results are challenging, especially given the business change that must occur at the same time. The Board and management also are mindful of the continued need to be focused on the governance, regulatory and operational issues facing NZRB.

As noted earlier, NZRB must pay close attention to costs and in particular, driving cost increases to be at a level at, or below, the rate of income increase. This is in itself challenging given the investment needed to bring the business in line with online competition and put it in a position that supports future growth.

The budget and SOI outcomes are also significantly impacted by:

- **Income**
    - Net Betting Margin, which is a function of turnover and the win rate, with all other main components being at a fixed percentage rate (GST, Betting Duty etc.). The win rate is driven by a number of components, particularly field size and percentage of favourites winning. The success of positions taken within the FOB book on particular event outcomes is also a key factor.
    - Export Income is driven by both the interest in NZRB products by offshore betting agencies and the Exchange Rate, as the commission received by NZRB is denominated in the currency of the respective betting agency. The income denominated in foreign currency is now being actively managed within the NZRB Treasury Policy, enabling the volatility that has been apparent to be reduced.
- **Expenses**
    - The level of project activity, business change and Capital Expenditure can all have a considerable effect on Operating Expenses. Project activity and business change typically leads to increased expenses due to the additional resource required to lead and manage such projects. Increased Capital Expenditure requires funding which reduces interest income and which also results in an increased depreciation charge.

FINANCIAL FORECASTS FOR NEW ZEALAND RACING BOARD GROUP

STATEMENTS OF PROFIT OR LOSS

Years ending 31 July	($m)				
	Actual 2013/14	Forecast 2014/15	Budget 2015/16	Forecast 2016/17	Forecast 2017/18
Betting turnover	**1,832.5**	**2,096.3**	**2,126.7**	**2,228.8**	**2,329.6**
Gaming turnover	**256.0**	**323.5**	**388.7**	**391.5**	**430.6**
INCOME					
Net betting revenue	255.5	273.9	274.3	283.9	292.1
Net gaming revenue	15.0	19.0	23.0	22.9	25.2
Other income	41.8	48.5	45.7	46.2	47.7
TOTAL INCOME	**312.3**	**341.4**	**343.0**	**353.0**	**365.0**
EXPENSES					
Turnover related expenses	47.0	53.4	49.5	54.9	57.5
OPERATING EXPENSES					
Premises and equipment expenses	29.0	36.0	41.8	42.7	43.5
Staff expenses	59.6	64.9	64.4	65.4	66.4
Other expenses	39.7	43.3	45.1	45.6	46.1
TOTAL OPERATING EXPENSES	**128.3**	**144.2**	**151.3**	**153.7**	**156.0**
Reimbursement from Gaming to cover race form publication	-	(2.0)	(2.0)	(2.0)	(2.0)
TOTAL EXPENSES	**175.3**	**195.6**	**198.8**	**206.6**	**211.5**
NET PROFIT	**137.0**	**145.8**	**144.2**	**146.4**	**153.5**
Made up of:					
BETTING NET PROFIT	133.0	139.1	135.4	137.1	142.8
GAMING NET PROFIT	9.7	12.7	14.8	15.4	16.9
RIU NET LOSS	(5.7)	(6.0)	(6.0)	(6.1)	(6.2)

The Forecast 2014/15 includes the gain on sale of Petone of $4.9m within Other Income of $48.5m. The effect of this on overall Net Profit and Betting Net Profit is shown in the table below. The financial metrics and waterfall graph shown on pages 16 and 17 have excluded this gain for comparative purposes.

The Forecast 2016/17 and 2017/18 are high level extrapolations of 2015/16 detailed budget information based on known trends. The NZRB is looking to implement a number of initiatives which would, once implemented, deliver profit improvements conservatively estimated to be between $2.0-$4.0m.

NORMALISED STATEMENTS OF PROFIT OR LOSS

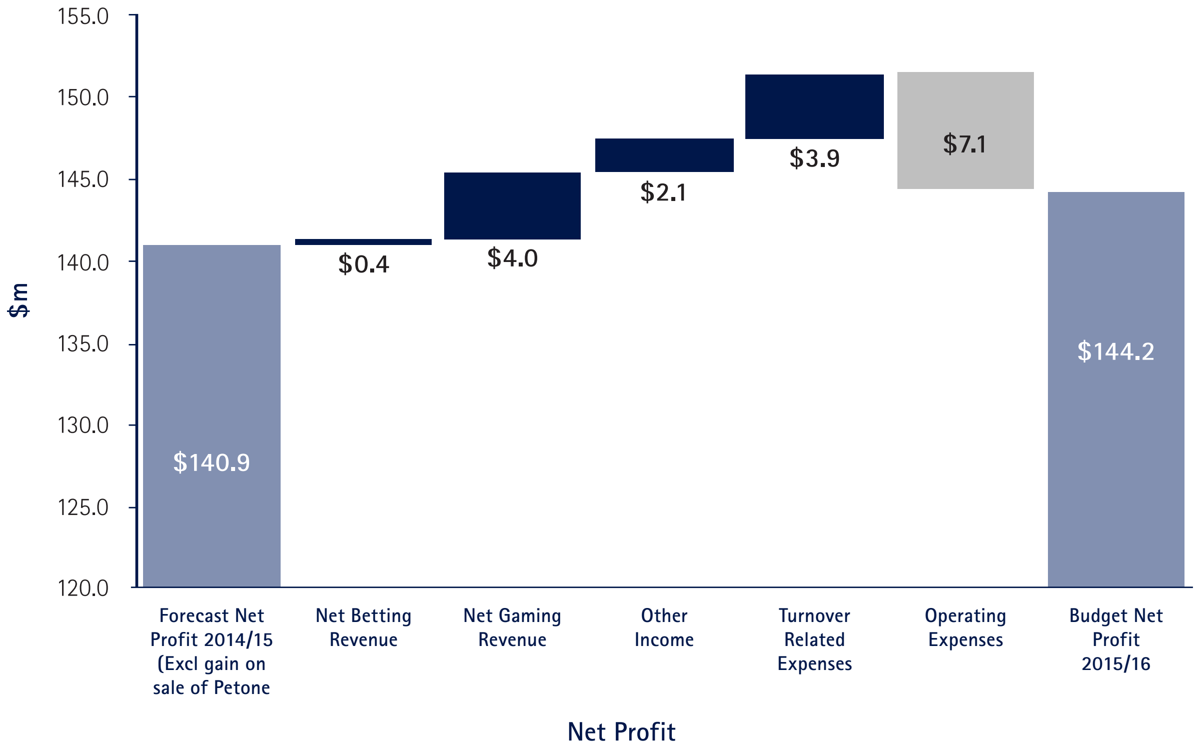
	($m) Actual 2013/14	Forecast 2014/15	Budget 2015/16	Forecast 2016/17	Forecast 2017/18
NET PROFIT	**137.0**	**145.8**	**144.2**	**146.4**	**153.5**
Gain on sale of Petone Head Office Building	-	(4.9)	-	-	-
NORMALISED NET PROFIT	**137.0**	**140.9**	**144.2**	**146.4**	**153.5**
Made up of:					
BETTING NET PROFIT	133.0	139.1	135.4	137.1	142.8
Gain on sale of Petone Head Office Building	-	(4.9)	-	-	-
NORMALISED BETTING NET PROFIT	133.0	134.2	135.4	137.1	142.8
GAMING NET PROFIT	9.7	12.7	14.8	15.4	16.9
RIU NET LOSS	(5.7)	(6.0)	(6.0)	(6.1)	(6.2)

FINANCIAL METRICS

Years ending 31 July	Actual 2013/14	Forecast 2014/15	Budget 2015/16	Forecast 2016/17	Forecast 2017/18
Operating Expenses/Total Income Ratio	41.1%	42.9%	44.1%	43.5%	42.7%
Total Expenses/Total Income Ratio	56.1%	58.1%	58.0%	58.5%	57.9%
Net Betting Revenue Margin %	13.9%	13.1%	12.9%	12.7%	12.5%
Net Gaming Revenue Margin %	5.9%	5.9%	5.9%	5.9%	5.9%
Earnings before interest, depreciation and distributions ($m)	148.1	155.0	159.2	161.5	168.6
Depreciation and amortisation ($m)	13.1	16.2	18.0	18.4	18.7
Capital expenditure ($m)	27.0	24.0	20.0	20.0	20.0

The level of capital expenditure above has been determined for SOI purposes after considering the capacity of the organisation to manage this level of expenditure, together with future likely business needs, the timing and detail of which are not yet clear. These include the upgrade to the Fixed Odds Betting system, the replacement of Outside Broadcasting vehicles and other likely IT developments.

WATERFALL – FROM 2014/15 FORECAST TO 2015/16 BUDGET



BETTING AND GAMING GROSS MARGIN ANALYSIS

	Actual 2013/14			Forecast 2014/15			Budget 2015/16			Forecast 2016/17			Forecast 2017/18		
	Turnover $m	GBR $m	GBM %	Turnover $m	GBR $m	GBM %	Turnover $m	GBR $m	GBM %	Turnover $m	GBR $m	GBM %	Turnover $m	GBR $m	GBM %
RACING															
TRANSACTIONAL PRODUCTS (TOTE)															
NZ	588.5	122.5	20.8%	569.4	117.3	20.6%	585.1	119.0	20.3%	569.5	115.7	20.3%	538.7	109.6	20.3%
Overseas	594.9	108.2	18.2%	654.4	113.3	17.3%	525.0	99.2	18.9%	528.1	99.3	18.8%	524.7	98.6	18.8%
TOTAL TRANSACTIONAL PRODUCTS (TOTE)	**1,183.4**	**230.7**	**19.5%**	**1,223.8**	**230.6**	**18.8%**	**1,110.1**	**218.2**	**19.7%**	**1,097.6**	**215.0**	**19.6%**	**1,063.4**	**208.2**	**19.6%**
FIXED ODDS BETTING															
NZ	214.7	22.1	10.3%	297.0	27.9	9.4%	372.2	36.0	9.7%	412.7	39.9	9.7%	444.4	42.9	9.7%
Overseas	118.6	20.4	17.2%	199.0	33.6	16.9%	242.8	41.5	17.1%	288.5	49.1	17.0%	347.3	59.1	17.0%
TOTAL FIXED ODDS BETTING	**333.3**	**42.5**	**12.7%**	**496.0**	**61.5**	**12.4%**	**615.0**	**77.5**	**12.6%**	**701.2**	**89.0**	**12.7%**	**791.7**	**102.0**	**12.9%**
TOTAL RACING	**1,516.7**	**273.2**	**18.0%**	**1,719.8**	**292.1**	**17.0%**	**1,725.1**	**295.7**	**17.1%**	**1,798.8**	**304.0**	**16.9%**	**1,855.1**	**310.2**	**16.7%**
SPORTS															
Fixed Odds Betting	315.8	36.9	11.7%	376.5	37.7	10.0%	401.6	36.5	9.1%	430.0	38.9	9.1%	474.5	42.9	9.0%
TOTAL SPORTS	**315.8**	**36.9**	**11.7%**	**376.5**	**37.7**	**10.0%**	**401.6**	**36.5**	**9.1%**	**430.0**	**38.9**	**9.1%**	**474.5**	**42.9**	**9.0%**
TOTAL BETTING	**1,832.5**	**310.1**	**16.9%**	**2,096.3**	**329.8**	**15.7%**	**2,126.7**	**332.2**	**15.6%**	**2,228.8**	**342.9**	**15.4%**	**2,329.6**	**353.1**	**15.2%**

	Actual 2013/14			Forecast 2014/15			Budget 2015/16			Forecast 2016/17			Forecast 2017/18		
	Turnover $m	GGR $m	GGM %	Turnover $m	GGR $m	GGM %	Turnover $m	GGR $m	GGM %	Turnover $m	GGR $m	GGM %	Turnover $m	GGR $m	GGM %
GAMING	**256.0**	**22.9**	**8.9%**	**323.5**	**28.9**	**8.9%**	**388.7**	**35.0**	**9.0%**	**391.5**	**35.2**	**9.0%**	**430.6**	**38.8**	**9.0%**

DEFINITIONS

- Gross Betting Revenue (GBR) is Turnover less Dividends
- Gross Betting Margin (GBM) is Gross Betting Revenue divided by Turnover
- Gross Gaming Revenue (GGR) is Turnover less Dividends
- Gross Gaming Margin (GGM) is Gross Gaming Revenue divided by Turnover

BETTING

Transactional Betting Turnover (Tote) and Gross Betting Margin is forecast to continue to decline over the SOI period reflecting the change in customer preference for both NZ and Overseas Tote. The forecast increase in 2014/15 is due to the additional betting turnover generated on the broadcast of more Australian races.

Fixed Odds Betting Turnover on both Racing and Sport show increases consistently each year reflecting the continued growth and customer preference for these products, with a consequential increase in Gross Betting Revenue.

Overall Betting Margin continues to decline over the SOI period due to the growth of lower margin Fixed Odds Betting products.

GAMING

Gaming Turnover and Gross Gaming Revenue show increases each year reflecting both the continued growth in Gaming sites and the greater revenue generated from existing sites. Gross Gaming Margin is constant over the SOI period reflecting the consistent Gaming payout ratio.

DISTRIBUTIONS

Years ending 31 July	Actual 2013/14 ($m)	Forecast 2014/15 ($m)	Budget 2015/16 ($m)	Forecast 2016/17 ($m)	Forecast 2017/18 ($m)
BETTING					
Distributions to Racing Codes	134.1	134.2	134.9	137.0	140.8
Distributions to Racing Industry	0.4	-	-	-	-
TOTAL DISTRIBUTIONS FROM BETTING NET PROFIT	**134.5**	**134.2**	**134.9**	**137.0**	**140.8**
Profit retained for reinvestment/(distribution from reserves)	(1.5)	4.9	0.5	0.1	2.0
BETTING NET PROFIT	**133.0**	**139.1**	**135.4**	**137.1**	**142.8**
GAMING					
Distributions applied to Racing Industry [1]	7.8	8.7	10.1	10.3	11.5
Distributions applied to NZRB race form publication expenses [2]	-	2.0	2.0	2.0	2.0
Distributions to Sporting External Bodies [3]	2.3	2.8	3.0	3.1	3.4
Distributions from prior year undistributed Gaming surplus	(1.5)	(1.1)	(0.3)	-	-
TOTAL DISTRIBUTIONS FROM GAMING NET PROFIT	**8.6**	**12.4**	**14.8**	**15.4**	**16.9**
Provision for undistributed Gaming surplus	1.1	0.3	-	-	-
GAMING NET PROFIT	**9.7**	**12.7**	**14.8**	**15.4**	**16.9**
RIU					
Impact of consolidation of RIU	(5.7)	(6.0)	(6.0)	(6.1)	(6.2)
TOTAL DISTRIBUTIONS	**137.4**	**140.6**	**143.7**	**146.3**	**151.5**
TOTAL NET PROFIT	**137.0**	**145.8**	**144.2**	**146.4**	**153.5**

[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 2015/16 year include the following:

RIU	$6.0 million
Judicial Control Authority	$1.3 million
NZ Racing Laboratory Services	$1.7 million
Other	$1.1 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] The NZRB has determined that up to 20% of Gaming Net Profit (Net Proceeds) shall be distributed for Sports Authorised Purpose.

STATEMENTS OF FINANCIAL POSITION

Years ending 31 July	($m) Actual 2013/14	Forecast 2014/15	Budget 2015/16	Forecast 2016/17	Forecast 2017/18
CURRENT ASSETS					
Cash and cash equivalents	19.7	18.2	13.8	11.9	12.5
Trade and other receivables	8.1	11.6	11.6	11.6	11.6
Non-current assets held for sale	5.1	-	-	-	-
Derivative assets	-	0.1	0.1	0.1	0.1
Other financial assets	29.5	37.0	37.0	37.0	37.0
Other current assets	1.8	2.7	2.7	2.7	2.7
TOTAL CURRENT ASSETS	**64.2**	**69.6**	**65.2**	**63.3**	**63.9**
NON CURRENT ASSETS					
Property, plant and equipment	41.8	47.9	49.2	51.8	52.8
Intangible assets	15.9	16.4	16.9	17.3	17.6
Other financial assets	3.1	3.1	3.1	3.1	3.1
TOTAL NON CURRENT ASSETS	**60.8**	**67.4**	**69.2**	**72.2**	**73.5**
TOTAL ASSETS	**125.0**	**137.0**	**134.4**	**135.5**	**137.4**
CURRENT LIABILITIES					
Trade and other payables	24.3	24.2	22.2	23.6	23.7
Customer betting account deposits and vouchers	19.5	21.7	21.7	21.7	21.7
Other financial liabilities	5.9	7.4	7.5	7.5	7.6
Taxation payable	2.8	4.5	4.5	4.5	4.5
Provisions	3.2	1.3	0.5	0.5	0.5
TOTAL CURRENT LIABILITIES	**55.7**	**59.1**	**56.4**	**57.8**	**58.0**
NON CURRENT LIABILITIES					
Other financial liabilities	-	3.4	3.0	2.6	2.3
Provisions	1.2	1.5	1.5	1.5	1.5
TOTAL NON CURRENT LIABILITIES	**1.2**	**4.9**	**4.5**	**4.1**	**3.8**
TOTAL LIABILITIES	**56.9**	**64.0**	**60.9**	**61.9**	**61.8**
NET ASSETS/TOTAL EQUITY	**68.1**	**73.0**	**73.5**	**73.6**	**75.6**

STATEMENT OF ACCOUNTING POLICIES

Reporting entity and statutory base

The New Zealand Racing Board (NZRB) is a statutory body established by the Racing Act 2003. Customer betting accounts and betting vouchers offered are debt securities within the meaning of the Securities Act 1978 and NZRB is therefore an 'issuer' for the purposes of the Financial Reporting Act 1993. NZRB is domiciled in New Zealand.

The principle objectives of NZRB as outlined in the Racing Act 2003 are to:

(a) promote the racing industry;

(b) facilitate and promote racing betting and sports betting; and

(c) maximise its profits for the long-term benefit of New Zealand racing.

The financial statements presented are for NZRB (the Parent) 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 financial statements are prepared in accordance with generally accepted accounting practice in New Zealand, as required under the Racing Act 2003 and the Financial Reporting Act 1993. They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) as appropriate for profit-oriented entities. They comply with International Financial Reporting Standards.

The Group is a Tier-1 entity, under XRB A1 Accounting Standards Framework For-Profit Entities.

Basis of measurement

These financial statements have been prepared on the historical cost basis. Cost is based on the fair value of the consideration given in exchange. The Group and Parent 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 current year. All the accounting policies have been applied consistently throughout the period and are the same as those used in the most recent financial statements.

Prior period comparatives

Certain prior period comparatives have been reclassified to conform to the current period presentation.

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 2013.

NZRB has concluded that there are no relevant Standards or Interpretations in issue that are not yet adopted that will have a material impact on NZRB's financial statements, other than NZ IFRS 9 Financial Instruments. NZ IFRS 9 replaces parts of IAS 39 Financial Instruments: Recognition and Measurement that relate to the classification and measurement of financial instruments. Adoption of this standard will mean that NZRB will no longer have assets classified as held to maturity. NZRB will apply this standard from 1 August 2015.

NZ IFRS 15 Revenue from contracts with customers replaces the current revenue recognition guidance in 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 in exchange for those goods or services. NZRB has yet to assess NZ IFRS 15's full impact. NZRB will apply this standard from 1 August 2017.

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.

Consolidation

The consolidated financial statements incorporate the assets and liabilities of all material entities controlled by NZRB as at 31 July 2014 and the results of the operations of such entities for the year then ended. NZRB and such entities are together referred to in these financial statements as NZRB.

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. Subsidiaries are deconsolidated from the date that control ceases. Balances between controlled entities, including inter-entity transactions, are eliminated.

Taxes

NZRB is exempt from New Zealand income tax pursuant to section CW 47 of the Income Tax Act 2007.

The following taxes, duties, levies and similar charges are paid by NZRB:

- Betting duty of 4 cents in the dollar on Gross Betting Revenue
- Gaming machine duty of 20 cents in the dollar on Gross Gaming Revenue
- Problem Gambling levy of 0.6[1] cents in the dollar on Gross Betting Revenue and 1.31 [1] cents in the dollar on Gross Gaming Revenue
- GST charged on GST-inclusive Gross Betting Revenue and Gross Gaming Revenue
- Broadcasting levy of 0.00051 cents in the dollar of revenue from broadcasting in New Zealand
- Fringe benefit tax (FBT)
- Accident Compensation Commission (ACC) levies
- Compulsory KiwiSaver employer contributions
- Property Taxes including local body rates

NZRB may be subject to foreign income tax and consumption taxes 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
- **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 Officer. All Gaming turnover is generated in New Zealand and geographical information for sports betting turnover is impracticable to collate.

Revenue

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.

Other income

Distributions received is income distributed from the Betting Account and Betting Vouchers' Trust to the NZRB.

Interest income is earned on cash and cash equivalents, short-term deposits, corporate bonds and Club loans. Interest income is recognised using the effective interest method when it is earned.

Merchant fee revenue is income derived from credit card transaction fees charged to customers (partial recovery of Merchant Fees which are charged to NZRB).

Income 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.

Racing services income 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 is advertising income earned on NZRB's Trackside TV channel and Trackside Radio and is subject to levies under the Broadcasting Act 1989.

All other income is measured at the fair value of the consideration given and is recognised when risks and rewards transfer from NZRB.

Turnover related expenses

Commingling fees are fees paid to overseas betting agencies on commingled pools. The fees are based on a percentage of the commingled turnover.

National sporting organisation grants are fees paid to New Zealand sporting bodies based on a combination of a percentage of turnover and betting margin earned on betting on the specific sport.

Outlet and agency fees are commissions paid to non-NZRB owned outlets for providing TAB services. A portion of the fees are fixed and the remaining is based on a percentage of the turnover earned by the outlet.

Overseas racing rights are fees paid to overseas broadcasters and betting agencies for taking bets on import racing. These fees are based on a percentage of turnover earned from the individual import race.

Cash and cash equivalents

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

There are no cash or call deposit balances held by NZRB that are not available for use. The carrying values of cash and cash equivalents approximate their fair values. The maximum credit exposure is limited to the carrying value of cash and call deposits.

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.

Included within trade and other receivables are the amounts owed to NZRB from non-NZRB owned retail outlets. The retail outlets are required to settle on a weekly basis. NZRB's practice is to require either bank guarantees or cash bonds from non-NZRB owned retail outlets of a value generally greater than a week's settlement.

Trade and other receivables are non-interest bearing and are generally on terms of 30 days or less.

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 outlet's 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 loans to racing clubs.

Where racing club loans are advanced at an interest rate that is below the market rate for an investment on similar terms and of similar credit quality, the loan's 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.

Short-term deposits and corporate bonds are classified as held-to-maturity as these are considered to have fixed or determinable payments and fixed maturity and NZRB has the intention of holding to maturity.

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. The deposits held in trust are not available for use by NZRB in the ordinary course of business.

Subsequent to initial measurement, all financial assets are measured at amortised cost, using the effective interest rate 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 the profit or loss.

Property, plant and equipment

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

At inception of NZRB in 2003, the deemed cost of land and buildings was the valuation of these assets at that time.

Depreciation is calculated on a straight-line basis so as to allocate the cost of each asset over its expected useful life to its estimated residual value. Depreciation is recognised within 'premises and equipment expenses' in the profit or loss. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter. Land is not depreciated. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each period.

The current annual depreciation rates are as follows:

Buildings	10 – 40 years
Leasehold Improvements	6 – 7 years
Hardware	2 – 7 years
Motor Vehicles	4 – 7 years
Operations & Trackside Equipment	5 – 15 years
Gaming Machines	5 years
Other (laboratory equipment, furniture & office equipment)	5 – 10 years

Any gain or loss on disposal, which is calculated as the difference between the net proceeds from disposal and the carrying amount of the item, is recognised in profit or loss within 'other expenses'.

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 is reviewed at the end of each annual reporting period.

The current annual amortisation rates are as follows:

Software	3 – 7 years
Broadcasting Licences	14 – 20 years
Lease Intangibles	2 – 6 years

Any gains or losses on disposal, which is calculated as the difference between the net proceeds from disposal and the carrying amount of the item, is recognised in the profit or loss within 'other expenses'.

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.

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 wages and salaries, 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.

No interest is incurred on trade payables unless the amounts payable fall overdue. Interest is charged at the discretion of the vendor. NZRB has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

Other financial liabilities

Jackpot retentions are established in accordance with the Betting Rules pursuant to sections 52 and 54 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.

Unpaid dividends represent the liability to winning customers on betting activities that have yet to be claimed. Unpaid 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 unpaid dividends that are less than six months old. Unpaid 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 odd 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.

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.

Provisions

Provisions are recognised when the following three conditions are met:

- The Group 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.

Distributions

NZRB's Net Profit from Betting operations is distributed to the racing industry in accordance with the Racing Act 2003.

Distributions are recognised in profit or loss, after Net Profit.

Distribution payments include a base funding component which is made directly to the racing Codes. These base funding distributions are based on funding agreements and determined by racing Code market share of the individual racing Code's races run for the previous two seasons.

NZRB also provides funding for certain other racing industry initiatives which are made at the discretion of NZRB. The expenses incurred in providing this funding have been classified as operating expenses.

If the current year's profit is not sufficient to cover total distributions, the general reserve is used.

Distributions of Gaming Net Profit are determined separately from distributions from Betting Net Profit. Distributions from the Gaming Net Profit are made to both external sporting bodies and to the racing industry. The racing industry distributions from Gaming operating profits are distributions to cover specific industry costs which are considered to be for racing authorised purposes. These costs include Judicial Control Authority (JCA), RIU and Racing Laboratory Services. All distributions from Gaming Net Profit are approved by the NZ Racing Board's Net Proceeds Committee under a grants policy that ensures that the authorised purpose is consistent with the purpose specified in the NZ Racing Board's Class 4 Gaming licence.

'Undistributed Gaming Net Profit from prior year' represents the payments made to the Racing Industry and Sports Authorised Purpose 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 Statement of Financial Position.

Financial guarantees

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 the profit or loss.

Leases

At inception of a lease, a lease classification test is performed to determine whether the lease is finance or operating lease. An operating lease is a lease that does not transfer all the risks and rewards of ownership to NZRB. Operating lease payments are recognised in the profit or loss on a straight-line basis over the lease term, within premises and equipment expenses. Any sublease income is recognised as other income.

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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

Stewart McRobie
Chief Financial Officer

Monique Cairns
Executive General Manager - Strategy and Transformation

Glenn Patrick
Executive General Manager - TAB

Colin Philp
Chief Information Officer

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