



ANNUAL REPORT 2018



NEW ZEALAND
RACING BOARD



TAB ^{TAB}**trackside**

CONTENT

2017/18 HIGHLIGHTS.....	4
ABOUT THE NEW ZEALAND RACING BOARD.....	5
STATEMENT FROM THE BOARD AND CEO	6
VISION, MISSION, PURPOSE AND VALUES	9
NZRB BUSINESS UPDATE	11
KEY CUSTOMER TRENDS.....	15
BOARD MEMBERS.....	18
GOVERNANCE STATEMENT	22
RESPONSIBLE GAMBLING.....	26
CLASS 4 GAMING DISTRIBUTIONS.....	27
FIVE YEAR TRENDS	28
FINANCIAL COMMENTARY	29
FINANCIAL STATEMENTS	34
NOTES TO FINANCIAL STATEMENTS.....	42
SUPPLEMENTARY INFORMATION	71
DIRECTORY	74



ANNUAL REPORT 2018

2017/18 HIGHLIGHTS

230,000 ACTIVE ACCOUNT CUSTOMERS PLACED A BET WITH US DURING THE YEAR, AN ADDITIONAL 38,000 CUSTOMERS, UP 20% ON LAST YEAR

A STRONG FINANCIAL RESULT - UNDERLYING OPERATING PROFIT BEFORE DISTRIBUTIONS WAS \$154.9 MILLION, UP \$6.9 MILLION [4.7%] ON LAST YEAR

SUCCESSFUL TAB CUSTOMER ACQUISITION CAMPAIGNS RESULTED IN 78,580 FIRST TIME BETTORS

THREE INDUSTRY ENHANCEMENT FUNDING GRANTS APPROVED MORE THAN \$1.0 MILLION IN FUNDING TARGETING STAKES, INFRASTRUCTURE AND YOUTH DEVELOPMENT



PERFORMING FOR NEW ZEALAND SPORT - COMMISSION PAYMENTS OF \$10.2 MILLION WERE MADE TO 34 NATIONAL SPORTING ORGANISATIONS, UP \$1.0 MILLION ON LAST YEAR; \$3.4 MILLION IN GAMING GRANTS WERE MADE TO COMMUNITY SPORTING ORGANISATIONS

**NOW
YOU'RE
IN THE
GAME**
TAB



GREYHOUND RACING HAS SUCCESSFULLY TRANSITIONED TO HIGH DEFINITION (HD) FOR IMPROVED CUSTOMER VIEWING WITH EQUINE CODES TO FOLLOW

PERFORMING FOR NEW ZEALAND RACING - DISTRIBUTIONS TO THE THREE RACING CODES WERE \$148.2 MILLION, INCLUDING AN ADDITIONAL \$12 MILLION IN FUNDING THAT UNDERPINNED A BOOST IN STAKES MONEY. A FURTHER \$12.8 MILLION IN FUNDING WAS APPLIED TO THE RACING INDUSTRY FROM GAMING

ANNUAL REPORT 2018

ABOUT THE NEW ZEALAND RACING BOARD

**NZRB SUPPORTS
BETTING ON
MORE THAN
84,000
DOMESTIC AND
IMPORTED
THOROUGHBRED,
HARNESS AND
GREYHOUND
RACES EACH
SEASON**

The New Zealand Racing Board (NZRB) is a statutory body established by the Racing Act 2003. NZRB's primary purpose is to promote and enhance the racing industry, run a profitable betting business and generate long term profit for the benefit of the racing industry.

NZRB operates the country's official racing and sports betting agency, the TAB. The TAB is a major entertainment business with more than 230,000 active TAB account-holders and a retail network consisting of almost 590 outlets. Every bet placed with the TAB makes an integral contribution to the growth of racing and sport in New Zealand and the livelihoods of the many thousands of Kiwis involved in the racing and sport sectors.

NZRB has a proud legacy stretching back to 1951 when the Totalisator Agency Board (TAB) was established as the sole betting operator in New Zealand, and first off-course totalisator service in the world.

NZRB supports betting on more than 84,000 domestic and imported thoroughbred, harness and greyhound races each season, as well as on approximately 39,000 domestic and international sporting events. It has betting agreements with 34 New Zealand National Sporting Organisations.

NZRB continues to develop its Gaming operation, having held a Class 4 Operator's Licence since 2011. Currently 44 of our 67 TAB Board Venues host NZRB gaming machines. The NZRB operates 3.9% of the total number of Class 4 venues and around 3.2% of the total number of Class 4 gaming machines in the New Zealand market.

Net proceeds from the gaming operation are split with at least 80% funding Racing Authorised Purposes (racing integrity measures such as the Racing Integrity Unit, Judicial Control Authority and NZ Racing

Laboratory Services; racing promotional costs such as race form, race calendar and contribution to The Races costs; racing enhancement costs for youth retention, infrastructure and stakes), and up to 20% distributed to communities across New Zealand through amateur sporting organisation grants.

NZRB directly employs 863 personnel (full-time, part-time and casual), with the majority of these people involved in the various facets that make up the TAB operation – scheduling daily racing for customers in New Zealand, selling racing and sports bets through the retail network, online and telephone channels, or the broadcast of racing on TAB Trackside 1, TAB Trackside 2, and TAB Trackside Radio.

After operating costs and expenses and distributions from Gaming, as outlined above, NZRB's surplus is available for distribution to the three New Zealand racing codes – New Zealand Thoroughbred Racing, Harness Racing New Zealand and Greyhound Racing New Zealand – in accordance with an agreed funding model.

NZRB makes a significant contribution to the development of sports in New Zealand through the commission we pay to national sporting bodies for sports on which we take bets. In the 2017/18 year, NZRB paid commissions totalling \$10.2 million to National Sporting Organisations across the country.

ANNUAL REPORT 2018

STATEMENT FROM THE BOARD AND CEO

The 2017/18 year has been a year of significant transformation for the New Zealand Racing Board (NZRB), and for the first time in decades the New Zealand racing industry is on the brink of achieving real progress. We are in the final stages of the delivery of our strategic initiatives which will, when fully implemented, drive the industry forward, enhance participation and investment in racing and sports and improve industry funding to levels never seen before.

NZRB has reviewed the report by Australian racing administrator John Messara and we consider many of the recommendations to be appropriate and sensible, including exploring the potential outsourcing of the TAB. However, the TAB is a significant and valuable industry asset and we owe it to our customers and the industry to make sure this option is thoroughly analysed and carefully considered before any decisions are made. Similarly, any changes to governance or funding mechanisms across the industry must be equitable and take into account both their contribution and impact on the entire industry. Any reconfiguration of racing venues and fit-for-purpose infrastructure must, in our view, involve active engagement with clubs.

STRONG FINANCIAL RESULTS

Underlying operating profit before distributions was \$154.9 million, up \$6.9 million (4.7%) on last year. Distributions to the three racing codes was a record \$148.2 million, an increase of \$10.6 million on last year, while a further \$1.0 million was allocated from our industry enhancement funds to improve stakes, infrastructure and youth development and \$2.6 million was distributed to The Races Limited Partnership. Commission payments of a record \$10.2 million were made to 34 national sporting organisations, an increase of 10.4% on 2016/17, and our gaming activities delivered \$12.8 million in funding applied to the racing industry and \$3.4 million in grants to community sporting organisations, up 6.8% on last year.

These strong results were underpinned by a significant growth in customer numbers combined with margin improvement and disciplined cost management. They are the combined effort of the hard work our people do, day in, day out, on racecourses and in TABs all over the country. We are delivering a thrilling betting, racing and sports experience that all Kiwis can get involved in and be proud of. We are delivering on our financial commitments to racing and sport and delivering a future for the industry, with our partners. We are an organisation that is well governed, well led and is performing.

The results are particularly impressive given the impact of VIP commingling restrictions under the terms of our international wagering agreements with Tabcorp, ongoing changes in customer preferences towards fixed odds and digital platforms and a second consecutive season of significantly higher levels of domestic race abandonments (32) that represented an estimated loss in profit to the industry of \$2.5 million. It is also a result that has been affected by the delay in Racefields legislation.

After receiving strong support across Parliament at its first reading and progressing to the Primary Production Select committee, the Racing Amendment Bill, which we know as 'Racefields', was halted after the announcement of the review by John Messara. NZRB and the codes reiterated our desire to see progress and Mr Messara himself stated that it was a key component of building a sustainable future for racing in New Zealand and should be expedited, but the bill was withdrawn in late September 2018. We estimate this setback has cost the industry around \$1 million each month from product fees and point of consumption taxes not being collected. The decision will impact our budgeted net profit in 2018/19, hence we remain committed to providing whatever support we can in the drafting of new legislation.

To mitigate some of this impact, NZRB has engaged directly with offshore corporate bookmakers to implement agreed Racefields type product fees for New Zealand racing. BetEasy is also making New Zealand racing available as part of their digital offering. Our broadcast partner Tabcorp is allowing their Sky racing channels to be available to BetEasy customers, taking all three codes of New Zealand racing to a new audience in the Australian market that we haven't been in before. A similar agreement with Betfair has also been implemented on a voluntary product fee basis (no media rights granted) and Betfair Australia pay on behalf of global Betfair exchange activity on NZ racing. These commercial agreements contributed \$0.4 million in profit in the final three months of the financial year.

The Racefields setback has not distracted us from our focus on advancing our strategic initiatives outlined in the Statement of Intent which will, once fully implemented, significantly improve the customer experience and we expect will increase annualised net profit above \$200 million. We believe there is huge opportunity to grow the profitability of the New Zealand TAB and that can be seen from the unprecedented growth in customer numbers over the past year.

ANNUAL REPORT 2018

STATEMENT FROM THE BOARD AND CEO (CONT'D)

RECORD CUSTOMER NUMBERS

We have delivered a number of Customer and Channel initiatives which has seen the total number of active account customers betting with us during the year reach a record of 230,000, up 20% on last year. This is a phenomenal rate of growth for a wagering business that has gained the admiration of many of our international competitors.

After a successful TAB brand refresh in 2016/17 which broadened our widespread appeal, we have significantly enhanced both our digital and retail offering and focused on providing world class channel experiences. In the past year, we have seen the single most successful customer acquisition initiative the NZRB has ever delivered. Our Melbourne Cup Racing Season campaign attracted 23,454 new first time bettors with over half of these customers going on to continue betting with the TAB across both racing and sport over the course of the year.

We also had a strong year for customer acquisition through sports betting. Major sporting events have been a key opportunity with new customers starting out betting on the sports they are familiar with, and, once they're confident with our product, more than half go on to place a bet on racing too. During the Conor MacGregor/Floyd Mayweather and Joseph Parker/Anthony Joshua boxing bouts, 12,000 new account customers were acquired while the Football World Cup saw 9,989 customers place their first bet with us.

Extensive work to improve our digital channels such as the TAB mobile app and website redesign has brought us more in line with our Australian competitors. Improvements to the app, including the addition of exotic bet types, live streaming of TAB Trackside and racing form has contributed to the total, year on year, mobile app betcount growing to 11.7 million, up an incredible 56% or 7.5 million bets. In terms of overall activity, the number of monthly active users on the mobile app is now around 47,700, up 37% on last year.

As we plan for the future we have been focused on ensuring our retail network is optimised and designed to meet the needs of our customers. Retail is still a vitally important part of our business and we continue to invest in new design, driving modernisation improvements and optimisation across our retail store network.

Further work will be focussed on transitioning customers to new digital platforms on the TAB website and mobile app and delivering feature and betting product enhancements on these to drive higher engagement and betting activity.

INVESTING FOR FURTHER GROWTH

NZRB has been completely transparent about our intention to invest in initiatives designed to significantly enhance our profitability. As with all businesses, the challenge is ensuring that the investment required to deliver growth is balanced against the benefits they will provide in the long-term, while minimising the impact on profitability in the short-term. NZRB has for the first time established a debt facility to smooth the impact of our investments for industry participants. We borrowed \$10 million under that facility in the 2017/18 financial year. This is backed by an important strategic investment in the growth of our business long term and we expect the balance sheet to strengthen significantly over the next few years as the investments deliver strong improvements in profitability for the benefit of our industry.

Our new Fixed Odds Betting (FOB) platform will be a game changer for our business and for Kiwi punters. We've partnered with world class international operators, OpenBet and PaddyPower Betfair, to enhance our fixed odds betting capability and ensure we can compete with the rest of the world. The impact for our customers will be substantial - the new system will give us a greater range of fixed odds betting opportunities on tens of thousands of events around the world. The last year has seen a truly collaborative effort in the design and build of both the new platform and the digital channels that will support it. Inevitably with large, complex projects of this kind there are challenges, and it has taken slightly longer than anticipated to implement the programme, but the new platform that will be delivered will be a significant step change for the whole organisation.

Major advances have been made in the formation of a long-term strategy for the capture of racing footage in New Zealand. The first phase was delivered late last year and saw greyhound racing moved to a centralised production model with a purpose-built fixed control room that provides cost efficiencies, while also going high definition (HD) for improved customer viewing. The next phase will see the replacement of our current end of life outside broadcast fleet for equine meetings with new state of the art high definition capable vehicles and an expansion trailer introduced to the field to support carnival meeting capability.

ANNUAL REPORT 2018

STATEMENT FROM THE BOARD AND CEO (CONT'D)

Investment is needed to provide modern facilities for racing participants, customers and communities. We need to invest in the right racing, trialling and training infrastructure to drive greater efficiency and sustained growth and create the safest possible environments for our animals. NZRB has been working with the codes in a Joint Working Group (JWG) to develop a Future Venue Plan (FVP), seeking feedback from the racing industry. We received 88 submissions from people right across the industry - clubs, racing industry organisations, owners and trainers. A future venue plan was developed and consultation planned for later this year, however the Messara review of the racing industry included recommendations on venues so this work is now part of a wider consultation being carried out by the DIA on behalf of the Racing Minister.

THE TIME FOR CHANGE

There is a persistent myth that NZRB is not performing but this simply is not true. We have met our budgeted operating profit for the past four years and delivered disciplined cost management while continuing to invest in the future of our business. We have delivered the Optimus programme, the largest technology project for 30 years, the racing calendar optimisation which has contributed financial benefits to the industry, combined with a significant growth in customers that sees active account customers now at the highest level they have ever been.



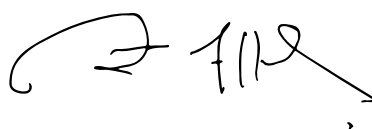
Glenda Hughes

Chair

New Zealand Racing Board

We are in the final stages of delivering our new FOB platform which will see our customers presented with a higher quality and competitive betting experience and we will continue to build on the strong foundation this platform provides over coming months and years. We have delivered HD racing for our greyhound product, and will shortly begin rolling out HD for equine racing over the coming year as our four new trucks are phased in, delivering both ahead of time and budget.

There is no doubt that our industry is on the cusp of major change. It is necessary change, change that has been a long time coming, and while the exact means of implementation needs to be rigorously tested, NZRB supports the need for action, and is ready to work with the Government and broader industry to agree and implement a plan that sees all of NZ racing on a sustainable path to a successful future.



John Allen

Chief Executive Officer

New Zealand Racing Board

ANNUAL REPORT 2018

VISION, MISSION, PURPOSE AND VALUES

OUR VISION



TO SECURE THE FUTURE OF OUR INDUSTRY, AND POSITION IT AS ONE OF NEW ZEALAND'S GREAT SUCCESS STORIES.

OUR MISSION



TO ENHANCE KIWIS' INVOLVEMENT AND ENJOYMENT OF RACING AND SPORT.

OUR VALUES

- **BE OPEN AND CURIOUS**
CHALLENGE YOURSELF • BE FLEXIBLE • LISTEN AND ASK QUESTIONS • SEEK DIVERSE VIEWS
- **COURAGE TO DO THE RIGHT THING**
BACK YOURSELF • WE'LL BACK YOU • SEEK OPPORTUNITIES • INTEGRITY ALWAYS MATTERS • SAFETY FOR ALL
- **MAKE IT HAPPEN**
EMBRACE THE CHALLENGE • TAKE ACTION • FIND A WAY • DELIVER ON OUR PROMISES
- **WINNING TOGETHER**
CELEBRATE SUCCESS • LEARN TOGETHER • RECOGNISE EACH OTHER'S CONTRIBUTION • HELP EACH OTHER SUCCEED



OUR PURPOSE



TO DELIVER A THRILLING BETTING, RACING AND SPORTS EXPERIENCE THAT ALL KIWIS CAN GET INVOLVED IN AND BE PROUD OF.

OUR COMMITMENT TO DIVERSITY AND INCLUSION

NZRB is committed to becoming a more diverse and inclusive organisation. We welcome diversity in all forms and want all of our people to know they are respected and valued, whatever their background, identifiers, beliefs or affiliations.

People are at the heart of our success. By embracing and incorporating the vast ranges of experience and perspectives our people bring to the NZRB, we are able to broaden our understanding, make better decisions, and deliver an improved experience for our customers. Not only is it great for the hearts and minds of our people, it's great for our customers.

We know that diversity and inclusion doesn't just happen, which is why we have embedded these principles in our organisational values which underpin the way we work and how we treat each other. We are building our strategy and our first focuses are on resolving gender-based pay inequalities, and improving representation of women and ethnicities in leadership. We may be at the beginning of our diversity and inclusion journey, but we are excited to see where it can take us.

TAB BREAKING RECORDS FOR CUSTOMER ACQUISITION

After successfully evolving the TAB brand, inspiring new punters and driving youth and energy into the industry, we have seen unprecedented customer growth.

The first major customer acquisition initiative of 2017/18 was the Melbourne Cup Season campaign that ran throughout October and November with a focus on educating the New Zealand public about the important lead in races (such as the Caulfield Cup, Cox Plate and Victoria Derby) that make up the Spring Racing period.

The customer insight underpinning the campaign was that most people who placed a bet, placed it on one event each year – the Melbourne Cup. We saw an opportunity to get customers to bet earlier, in the marquee lead-up races.

We also saw the need to demystify the complex jargon around horse racing, identified as a genuine barrier to participation for many non-bettors who had not previously bet on the Melbourne Cup.

We set about educating customers about the different bet types, and profiled the Kiwi horses who were set to feature in the marquee races. This campaign was supported with a social influencer layer called #KiwisfortheCup using brand ambassadors Maria Tutaia, Israel Dagg and Brendon McCullum to build local interest.

Melbourne Cup Season now ranks as the single most successful customer acquisition initiative the NZRB has ever run and results are as follows:

- **23,454 first time bettors, up 28% on target**
- **150,200 unique bettors, up 5% on target**
- **14,900 account sign ups on Melbourne Cup day**
- **11,424 FTBs placing first bet on the Melbourne Cup itself, up 60% on last year**
- **78,300 unique bettors on Cup day, up 15% on last year**
- **An increase in first time bettors placing bets on all Spring Carnival events.**

Over the past year we have seen a total of 78,580 new first time bettors, representing a 48% year on year increase in new customers signing up with the TAB.

These outstanding commercial results have received widespread industry recognition. At the 2018 TVNZ New Zealand Marketing Awards, our team won the Best Use of Customer Insight/Data Award, and NZRB's Head of Strategic Marketing, Simon Jarvis, was named New Zealand Marketer of the Year. This follows earlier success at the New Zealand Direct Marketing Awards where the team collected seven awards, more than any other Kiwi business or brand.



ANNUAL REPORT 2018

NZRB BUSINESS UPDATE

BUSINESS PERFORMANCE UPDATE

NZRB's business performance over the past year has been strong across multiple fronts, with underlying operating profit growing by \$6.9 million (4.7%) to \$154.9 million.

NZRB's underlying operating profit provides a comparable year-on-year indication of how the core business of NZRB is tracking as it separates out the one-off impacts of gains on sale of buildings and the revenue and costs associated with delivering our key strategic initiatives, which operate alongside our regular operations and are designed to significantly lift profits longer term.

There have also been a number of challenges during the year which had an impact on betting turnover and revenue such as VIP commingling restrictions, the continued migration towards fixed odds and digital platforms and further high levels of domestic race abandonments. Positively, these have been mitigated through strong customer acquisition, growth in digital channels and improved betting margins, with betting turnover up \$17.8 million (0.8%) and net betting revenue up \$10.1 million (3.6%) on last year respectively. Our overall net betting margins have increased by 0.3ppts to 12.7% with an underlying improvement across most product margins, particularly in racing FOB up 0.7ppts to 12.4% and sports up 1.1ppts to 8.3%.

Similar to the previous year, there was a reduction in betting turnover from VIPs who are no longer able to bet into commingled Australian pools with us as a result of the new Tabcorp agreements, though the impact of this was partly mitigated by a lift in VIP betting into our NZ hosted pools. Betting turnover excluding VIPs increased by \$34.0 million (1.6%), driven by a combination of strong customer acquisition through numerous successful marketing campaigns such as the Spring Racing Carnival and FIFA World Cup, and significant growth in digital channels via product and feature enhancements to the TAB website and mobile app. This growth was partly impacted by higher betting margins which impacted betting churn (customers recycling their winnings) resulting in lower turnover.

The industry experienced another high number of abandonments this season, which saw 32 meetings impacted over 29 days (largely in the thoroughbred code). We managed to mitigate some of the impact of these abandonments through rescheduling of alternative overseas racing, however this still resulted in \$2.5 million of estimated net profit lost to the industry.

Our gaming business also performed strongly, with gaming turnover up \$39.8 million (9.1%) to \$476.0 million, and gaming revenue up \$2.1 million (8.6%) on last year following continued investment in existing venues, including gaming conversions and refurbishments as well as the opening of one new venue and the full year impact of two others stores that opened last year.

SUCCESSFULLY CONTROLLING COSTS

NZRB has continued to ensure costs are strictly managed and as a result underlying operating expenses to run our business only increased by \$0.8 million (0.6%) in 2017/18 and are \$1.7 million below budget, with underlying staff costs decreasing by \$3.1 million (5.1%) year-on-year and \$3.3 million below budget. This was offset by an increase in communications and technology costs of \$1.5 million that underpins the continued investment in our technology infrastructure and IT operating platforms combined with an increase in other expenses of \$2.8 million that relates specifically to the loss of Events Marketing and Logistics (EML) cost recoveries (\$1.1 million) following the transfer to The Races Limited Partnership (TRLP). We also experienced higher merchant fees (\$0.5 million) relating to an increase in customer account deposits, costs related to the Payment Credit Card Industry (PCI) compliance programme (\$0.9 million) required as part of our merchant credit card services and an increase in health and safety costs (\$0.1 million) in line with legislative requirements.

Including the additional costs associated with the key strategic initiatives, reported operating expenses for the year are up \$8.1 million (5.9%) on last year but \$4.8 million (3.2%) under budget. This is driven by the planned increase in investment behind the strategic initiatives and other costs of \$9.9 million (\$3.1m below budget). This covers Fixed Odds Betting (\$5.3 million), Customer and Channels (\$3.2 million), Optimise the Calendar (\$0.7 million), and Anti-Money Laundering (AML) programme (\$0.7 million).

STRATEGIC INITIATIVES AND MAJOR PROJECTS

CUSTOMER AND CHANNELS

As outlined in our Statement of Intent, the Customer and Channels programme is designed to deliver \$17 million of additional profit back to the racing industry by 2021. We're doing this by growing our customer base, enhancing our products, providing world class channel experiences and lowering our cost to serve.

We have seen unprecedented growth after successfully repositioning the TAB brand, broadening our wider mainstream appeal, significantly enhancing both our digital and retail offering and completing a series of effective and successful marketing acquisition campaigns, we have seen unprecedented customer growth.

We have seen a remarkable increase in our underlying active account customer base, with an additional 38,000 customers which now puts our number of active account customers at 230,000 up 20%. We have also seen a strong increase in the number of active monthly account customers, averaging 114,500, compared with 98,000 for the same period last year.

We attracted a massive 23,454 new first time bettors through our Spring Racing campaign and during the Rugby League World Cup late last year. This year, the Football World Cup campaign saw 9,989 incremental first time bettors against a target of 7,000.

Improvements to our digital channels have been extensive as we've worked to dramatically enhance the experience for customers.

The TAB mobile app has had a complete redesign to bring us more in line with our Australian competitors. Additional features such as all racing exotic and multi-leg betting products, easy and extended race form and live streaming for both sports and racing has seen remarkable growth;

Mobile App

- Betcount: 11.7 million, up 56% or 4.2 million bets
- Unique users: 47,700, up 37%

We have continued to focus on optimising our retail network, while also investing in new design stores across the country. There have been 27 store refurbishments, all with new design elements including an improved look and

feel, dedicated betting zones, improved in-store viewing and new self-service zones. Feedback from customers has been outstanding and has seen an uplift in performance.

As we plan for the future we need to ensure our network is the right size, not only geographically but also with the right operating formats, either full service or self service, the size and shape of the network will continually change based on the needs of our customers.

The second phase of the Customer and Channels programme will continue to deliver a range of initiatives designed to grow customer numbers, while improving the overall customer experience of betting with the TAB. These include:

- Continued focus on large campaign-based customer acquisition, leveraging major events such as the Spring Carnival and the launch of our new Fixed Odds Betting platform which includes new digital platforms.
- Transitioning customers to new digital platforms on the TAB website and mobile app and delivering feature and betting product enhancements on these to drive higher engagement and betting activity.
- Continuing to drive modernisation improvements and optimisation across our retail store network.
- Delivering the next generation of multi-channel solutions into retail, including improved self-service options and improved digital experience in store.
- Evolving our customer reward and recognition programmes particularly for retention of our top tier customers.
- Telling our 'give back' story to further reduce barriers to participation and show how the TAB gets behind racing and sports in New Zealand.
- Continuing to drive the repositioning and modernisation of the TAB brand through a range of strategic partnerships that will help us connect with new audiences and create better engagement with Kiwi sports fans.

ANNUAL REPORT 2018

NZRB BUSINESS UPDATE (CONT'D)

FIXED ODDS BETTING

Despite being effective at attracting new customers, right now our technology doesn't allow us to meet all of their current and future needs. This is driving some of our punters to overseas competitors and has the potential to reduce the return available to New Zealand racing and sporting codes in the future.

Our solution is to meet the market, while preserving the things that make us unique - like our tote offering. We've partnered with OpenBet and PaddyPower Betfair to enhance our fixed odds betting capability, and ensure we can compete with the rest of the world. Our new Fixed Odds Betting (FOB) system will give us a greater range of fixed odds betting opportunities on tens of thousands of events, around the world. We're also delivering a new website and mobile app.

The last year has seen a truly collaborative effort in the design and build of both the new platform and the digital channels that will support it. OpenBet, Paddy Power, Sports Bet and our own team at NZRB are now heavily focused on testing every part of the system.

Progress is moving at an impressive pace, and we remain on track to launch later this year.

FUTURE VENUE PLAN

We worked with New Zealand Thoroughbred Racing (NZTR), Harness Racing New Zealand (HRNZ) and Greyhound Racing New Zealand (GRNZ) to develop a plan that will help shape the future of New Zealand racing. We know that investment is needed in the right racing, trialling and training infrastructure to drive greater efficiency and sustained growth over the next 5 to 20 years to create the safest possible environment for our animals, and to provide modern facilities for racing participants, customers and communities.

The Joint Working Group (JWG) was established to investigate, develop and recommend an optimal network of long-term racing and training venues. The future venue plan aims to help generate maximum benefit for racing's participants and investors and contribute to a long-term sustainable future for the industry by increasing financial returns and ensuring strategic investment in fit-for-purpose infrastructure.

In February, the JWG asked the racing industry for their feedback to help inform the future venue plan. We received 88 submissions from people right across the industry - clubs, racing industry organisations, owners, trainers and others with an interest in racing. While there was complete consensus on the need for change, the submissions provided a broad and considered perspective on the issues facing clubs and venues around the country. Several submissions factored in feedback from various racing interests within specific regions or sectors, while others presented well-informed views on the issues affecting local, regional and national racing.

A future venue plan was developed and consultation with the racing industry was planned for October. However, as the Messara Report included a recommendation on venues that should remain and those that should close, this is now part of a wider consultation the DIA is carrying out on behalf of the Racing Minister.

ANTI-MONEY LAUNDERING

The Anti-Money Laundering and Countering Financing of Terrorism Act 2009 (AML/CFT Act) requires that we have systems and controls in place to detect and deter money laundering and terrorism financing. Mitigating money laundering risks is not new for us.

We have complied with the Financial Transaction Reporting Act (FTRA) since 1996 which requires us to obtain customer identification, monitor transactions and report those that are suspicious.

From 1 August 2019, we will need to comply with the AML/CFT Act, which requires more precise customer identification as well as more stringent record keeping and transaction monitoring requirements. Failing to comply with the AML/CFT Act will expose us to severe enforcement provisions, which include fines of up to \$5 million per instance.

In September 2017, the AML/CFT project team was formed and they have been carrying out detailed analysis of what processes and systems need to be changed to achieve AML/CFT compliance. These will impact both staff and customers. We have a programme of work that will make us compliant, that works for our staff, stakeholders and our customers, while taking the opportunity to enhance our AML/CFT culture, systems and processes.

**WE'VE BEEN
ABLE TO REDUCE
THE SIZE OF OUR
FLEET..., AND
RIGHT-SIZE OUR
BROADCASTING
OPERATION,
ALLOWING US
TO REDUCE
COSTS AND
DELIVER MORE
PROFIT BACK
TO THE RACING
INDUSTRY**

VISION CAPTURE

The Vision Capture project was set up to design and implement the long-term strategy for capturing racing footage in New Zealand. The current fleet of Outside Broadcast (OB) vehicles are near their end of life and have a high risk of failure due to the aged condition of the vehicles.

Following a thorough review of our operating model for efficiency and ability to meet future requirements, we agreed a fit-for-purpose solution that combines both centralised and mobile production would be the most efficient for our current environment.

Through the use of this more modern technology for greyhound racing, we've been able to reduce the size of our fleet from six trucks to four, and right-size our broadcasting operation, allowing us to reduce costs and deliver more profit back to the racing industry. The new OB vehicles will cover all thoroughbred and harness race meetings throughout New Zealand, with each truck based in one of four main regions - Northern, Central and Southern (Christchurch and Dunedin) - delivered through a phased roll out, a move that will see all racing available in full HD by the end of 2019.



RACEFIELDS

The Racing Amendment Bill 2014 was the product of several years of industry discussion regarding the lack of a racefields regime in New Zealand. The Bill was introduced to Parliament in July 2017 and referred to the Primary Production Select Committee in August 2017 after receiving strong support at its first reading. The Select Committee worked to progress its role quickly including hearing submissions during a shortened consultation period in November/December 2017. NZRB and the three racing codes made a joint submission in support of the Bill but proposing some amendments to enable the racefields framework to operate more efficiently.

In April 2018, the Racing Minister announced that Mr Messara would review the Bill as part of his report and assess whether it was fit-for-purpose. In his final report, Mr Messara concluded that the Bill should be enacted at the earliest opportunity in either its present form or as part of wider legislation. However in September, the Racing Minister indicated the Bill had been withdrawn from Parliament in order to include these changes with potential broader legislative changes to the Racing Act.

NZRB had forecast an additional revenue of \$4.9 million last year and \$8.9 million this year through racefields. If the changes to the Bill proposed by Mr Messara are enacted in future, the three Codes, Sport NZ and the Department of Internal Affairs will become the designated authorities charged with collecting any fees. No revenue will therefore be collected or distributed by NZRB. We remain committed to providing whatever support we can in the drafting of new legislation.

ANNUAL REPORT 2018

KEY CUSTOMER TRENDS

RACING TOTE IS STILL OUR MOST POPULAR PRODUCT AT 42% OF BETTING TURNOVER, BUT IS DECLINING, DOWN FROM 45% LAST YEAR

TURNOVER THROUGH OUR RETAIL NETWORK WAS \$777 MILLION, DOWN ON LAST YEAR WITH TURNOVER DECLINE OF 2%



THE NUMBER OF UNIQUE CUSTOMERS TO PLACE A BET IN THE PAST 12 MONTHS WAS 230,000, UP 20% ON LAST YEAR



THE NUMBER OF ACTIVE BETTORS PER MONTH CONTINUES TO INCREASE WITH AN AVERAGE OF 114,500 ACTIVE CUSTOMERS PER MONTH, AND THE HIGHEST EVER MONTHLY NUMBER OF ACTIVE BETTORS [EXCLUDING MELBOURNE CUP MONTH] ACHIEVED IN JUNE WITH MORE THAN 124,000 ACTIVE BETTORS

DIGITAL CHANNELS MAKE UP 52% OF BETTING TURNOVER, UP FROM 49% LAST YEAR, WITH THE TAB MOBILE APP THE FASTEST GROWING CHANNEL WHERE TURNOVER GREW BY 30% THIS YEAR AND APP CUSTOMERS UP 45%



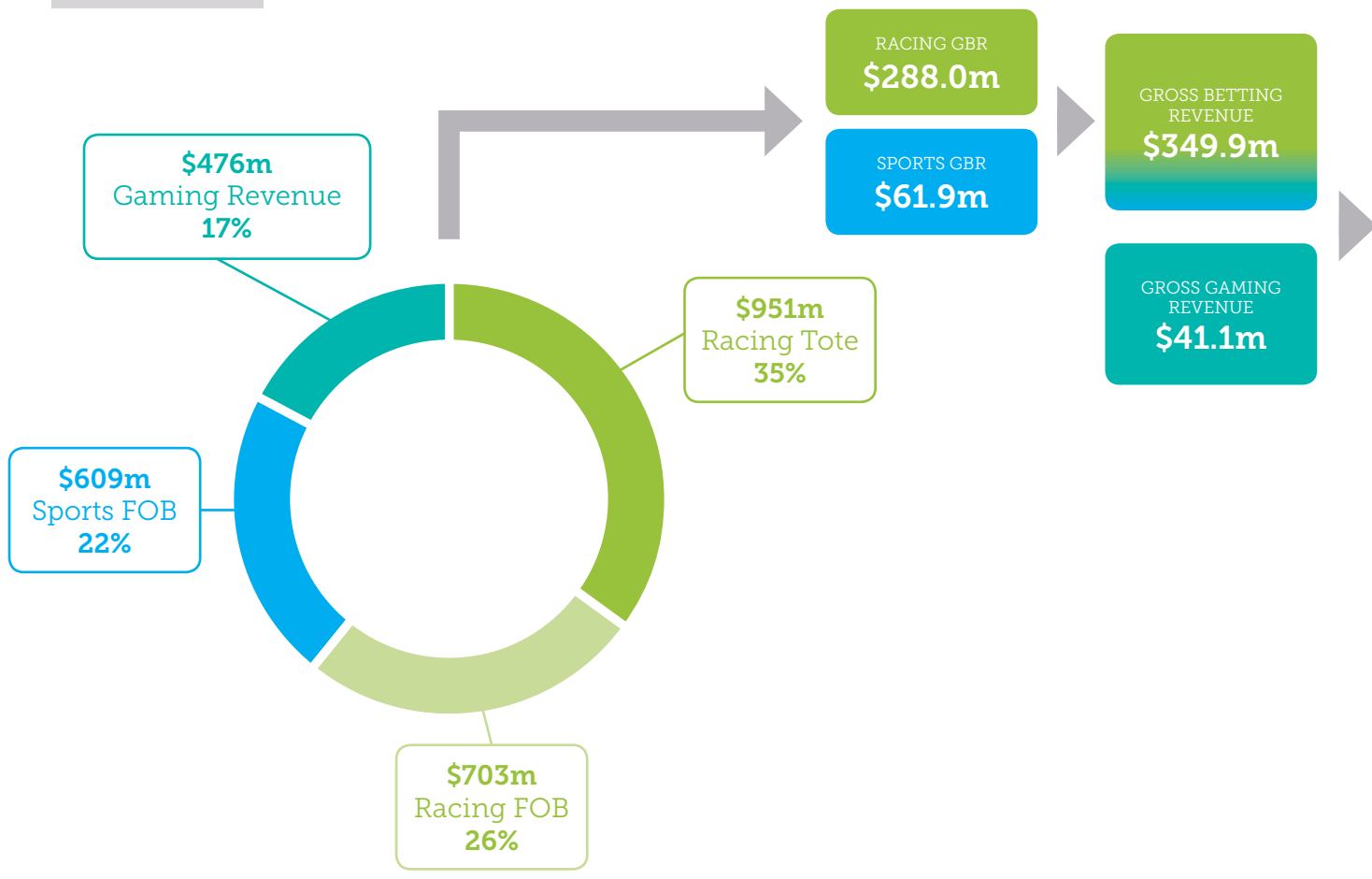
OVER 78,000 CUSTOMERS MADE THEIR FIRST BET IN 2017/18

60% OF BETTING TURNOVER IS THROUGH ACCOUNT-BASED CUSTOMER CHANNELS

INFOGRAPHIC

TURNOVER

GROSS REVENUE



BETTING TURNOVER

RACING

SPORT

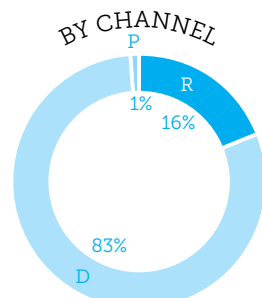
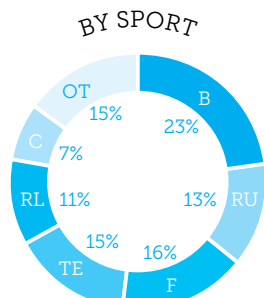
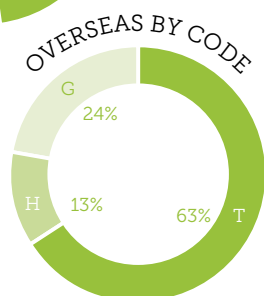
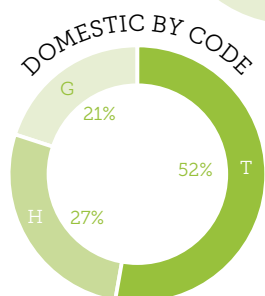
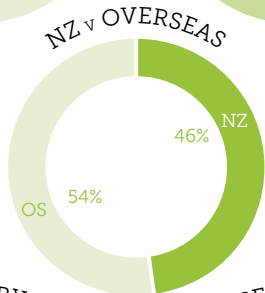
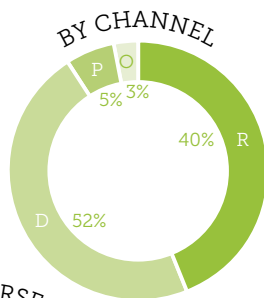
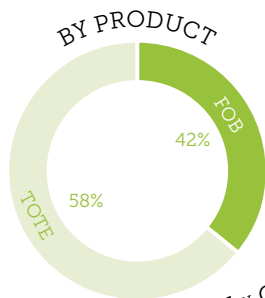
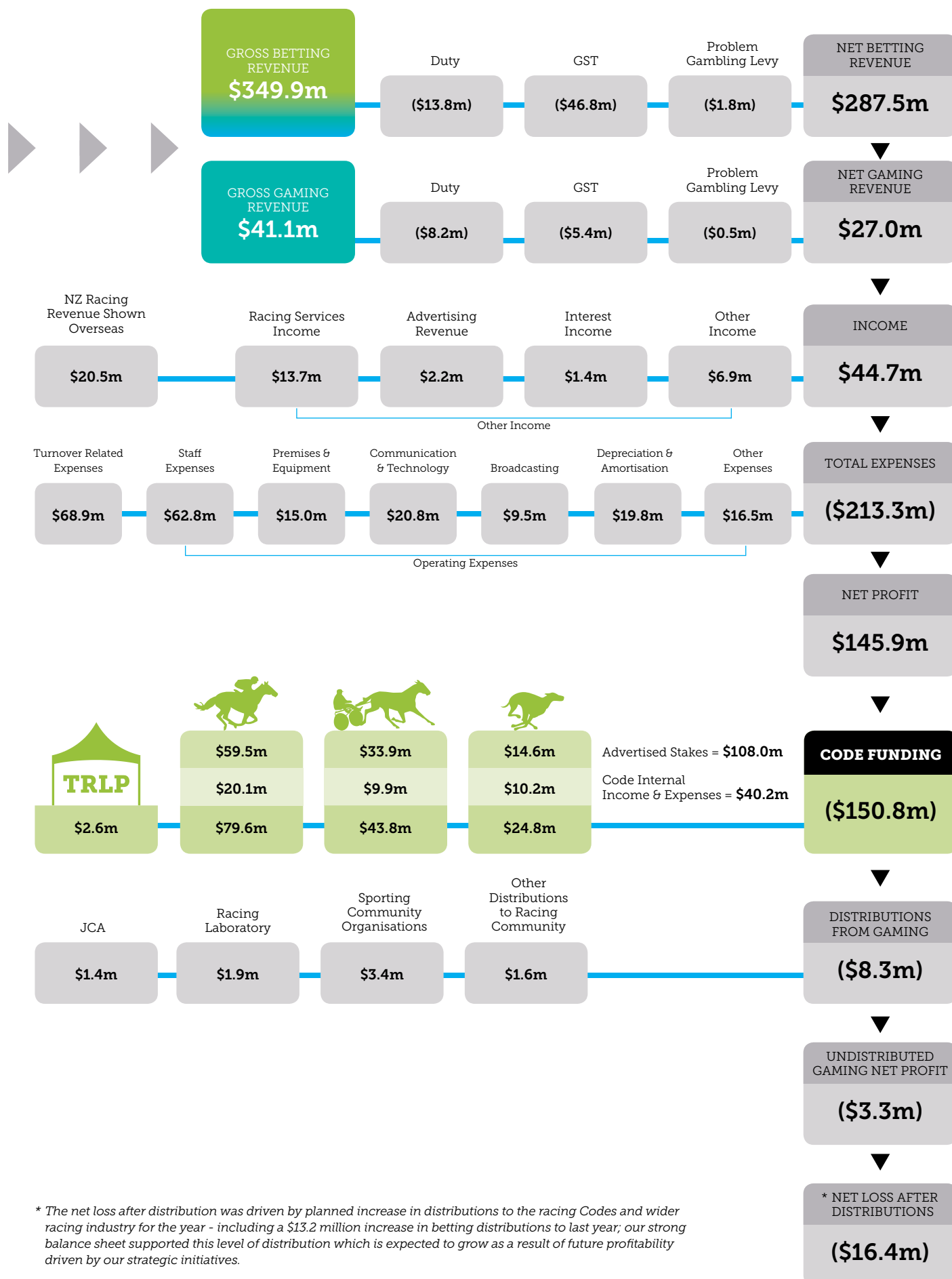


CHART KEY

- GBR = GROSS BETTING REVENUE
- G = GREYHOUND
- H = HARNESS
- T = THOROUGHBRED
- P = PHONE
- R = RETAIL
- D = DIGITAL
- O = ONCOURSE
- B = BASKETBALL
- C = CRICKET
- F = FOOTBALL
- RL = RUGBY LEAGUE
- RU = RUGBY UNION
- TE = TENNIS
- OT = OTHERS



ANNUAL REPORT 2018

BOARD MEMBERS



GLEND A HUGHES
INDEPENDENT
CHAIRPERSON | BA

Glenda Hughes has 25 years' experience in management, leadership and corporate governance. She is owner and managing director of a communications and media strategy company, Glenda Hughes Communication, which specialises in strategic management, public change programmes, government relations, media liaison, marketing, promotions and launches. Ms Hughes has significant board and sporting experience through her service on the boards of charitable trusts and the Parole Board. She is a member of the Institute of Directors and has represented a number of sports teams, including New Zealand at the Commonwealth Games in 1982. In addition to her Bachelor of Arts degree, she holds a post graduate paper in creative non-fiction writing, a certificate in athletic career management and has completed papers for a Diploma in business administration, communications and dispute resolution.



MAURO BARS I
GREYHOUND CODE
NOMINEE | LLM(HONS), BA

Mauro Barsi is the CEO of Greyhound Racing New Zealand, and has been a past member of the GRNZ Board. Previous to this, Mauro gained substantial experience in business management, corporate restructuring and litigation. He has successfully led teams in various industry sectors, including in events, the public sector, the employment relations field and in corporate litigation. He has managed a number of successful business transactions and helped shape the strategy for number of successful New Zealand entities.



BILL BIRNIE
INDEPENDENT
MEMBER | LLB

Bill has over 30 years of investment banking experience and holds a Bachelor of Laws. He is the Chairman of the KidsCan Charitable Trust, a Director of Far North Holdings and a Member of the New Zealand Screen Production Grants Verification Panel. Bill has held a number of Government appointments including Deputy Chairman of Sport New Zealand, Chairman of Sport New Zealand's Audit, Finance and Risk Committee and Deputy Chairman of High Performance Sport New Zealand. Bill is a former Deputy Chairman of the New Zealand Film Commission and past Chairman and Director of ENZA. He has held the positions of Director of the NZ Warriors Rugby League Franchise, the Screen Council of New Zealand, Commissioner of the Hillary Commission, Trustee of the James Wallace Arts Trust and Director of Equestrian Sports New Zealand from which he received an Honorary Life Membership. Bill was also a Founding Trustee of the Wellington Stadium Trust and was Deputy Chairman of the then government owned Post Office Bank, prior to its sale to the ANZ Banking Group.

ANNUAL REPORT 2018

BOARD MEMBERS (CONT'D)



GRAHAM COONEY
INDEPENDENT MEMBER

Graham Cooney is an experienced director across a number of sporting, business and education institutions. He was a founding director of Blue Sky Meats (NZ) Ltd and was chairman from 2008 to 2016. He has served as a board member of New Zealand Rugby as well as spending time on the boards of both the Highlanders and Crusaders. He was chairman of the Southern Institute of Technology for 9 years. Graham participates in the racing industry through his breeding and racing of standardbred horses.



ROD CROON
HARNESS CODE NOMINEE

Rod was the owner of ECM Music (1995-05) and Lifestyle Sports (1991-94) and was appointed to the Board in August 2012 as Harness Code nominee. A standardbred breeder and owner, he has served as Chairman of Northern Harness Racing (2008-12) and is a past President of the Auckland Trotting Club. He has also served as Chairman and Director of the New Zealand Sire Stakes Board.



GREG MCCARTHY
*THOROUGHBRED CODE
NOMINEE | BCA, CA*

From the racing heartland of Cambridge, Greg McCarthy is a director of Sutton McCarthy Limited, a consultancy firm that provides strategic, financial and treasury advice to corporate and other clients. A Chartered Accountant, Greg is a director of Rangatira Forests Limited. Greg has been active in the thoroughbred industry for more than 20 years as a breeder and racehorse owner. Greg has a BCA in Accounting, Economics and Commercial Law. He also holds a Graduate Diploma in Rural Studies.

GREYHOUNDS GO HIGH DEFINITION



In November 2017, we launched a brand new operating model for the way we capture vision for greyhound racing in New Zealand. Instead of bringing in a large OB vehicle, we created a new centralised production model that allows us to provide the production aspects of the live footage using network vans at race tracks and a purpose-built control room in Christchurch.

Each one of the greyhound venues is now connected remotely to this control room via a new fibre network and live footage is captured in high definition at the track and sent directly to Christchurch to be produced. It also meant a switch from standard definition (SD) to high definition (HD), something fans of the dogs are enjoying. The picture quality is significantly better, crisp and clear, with much finer detail. Even those without HD capability at home have noticed an improvement in the quality.

It is understood to be a first for racing and sport in the Southern Hemisphere and more broadly for New Zealand to produce live television from remote locations, utilising a centralised control room.

Partnering with Vocus Communications to develop the network capability to make this possible allowed us to deliver a cutting edge solution in a relatively short time, on a modest budget and the results have been incredible.

ANNUAL REPORT 2018

BOARD MEMBERS (CONT'D)

BOARD AND INTERESTS REGISTER - Board members as at 31 July 2018

GLEND A HUGHES

- Racing Integrity Unit, Chair
- National Party, Board Member
- Clubs New Zealand Incorporated, Client
- KidsCan Charitable Trust, Director
- Pet Refuge Charitable Trust, Chair

MAURO BARSI

- Greyhound Racing New Zealand, Chief Executive Officer

BILL BIRNIE

- Far North Holdings Limited, Chair
- KidsCan Charitable Trust, Chair
- Pet Refuge Charitable Trust, Trustee
- New Zealand Screen Production Grants Verification Panel, Member of Panel
- Black Gold (philanthropic support for Sport NZ, HPNZ, and NZOC), Director
- Enztec Limited, Chair
- Omni Life Science Inc., Chair
- Bay Kauri (Two) Limited, Director
- BC Finance Limited, Shareholder & Director
- BF Nominees Limited, Shareholder & Director
- Bidwill Nominees Limited, Shareholder & Director
- Birnie Capital Limited, Shareholder & Director
- Crown Equipment Leasing Limited, Director
- Embedded Investments Limited, Director
- Life Force Cosmetics Limited, Shareholder & Director
- Mataka Limited, Shareholder & Director
- Mataka Nominees NO10 Limited, Shareholder & Director
- Medical Innovations Limited, Director
- North Port Coolstores (1989) Limited, Shareholder
- Ruby Coastal Investments Limited, Director
- Smilla Nominees Limited, Director

GRAHAM COONEY

- Southland Standardbred Breeders Association, Committee Member
- Standardbred ownership and breeding interests
- Red Meat Profit Partnership, Board Member
- Computer Group (Voluntary Liquidation), Shareholder & Director

ROD CROON

- Croon Bloodstock Limited, Managing Director
- Standardbred ownership and breeding interests
- Standardbred Breeders Association, Member
- Auckland Trotting Club, Vice President and Life Member

GREG MCCARTHY

- New Zealand Thoroughbred Breeders' Association, Member
- New Zealand Thoroughbred Racehorse Owners' Federation, Member
- Rangatira Forests Limited, Director and Shareholder
- Spring Creek Estate Limited, Director
- Sutton McCarthy Limited, Director and Shareholder



INDUSTRY ENHANCEMENT FUNDS

In January 2017, NZRB announced it would provide an additional \$4.8 million in funding to support the racing industry at a grassroots level, to improve stakes, address aging infrastructure and encourage the entry of young people into racing. In season one \$0.6 million was distributed, while a further \$1.0 million has been distributed this season.

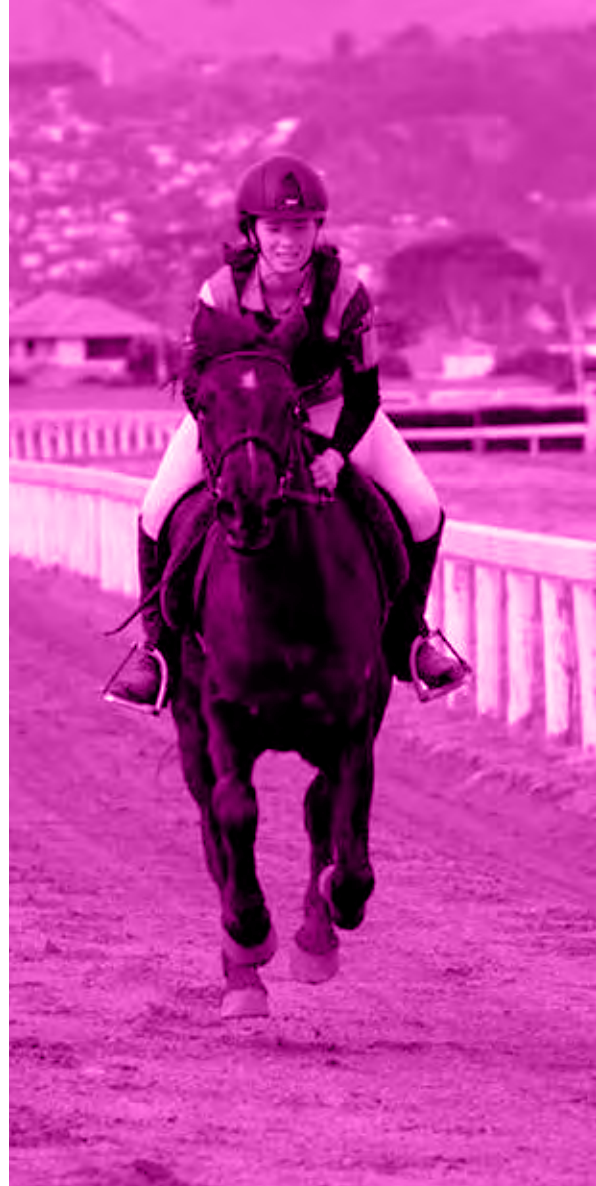
Of that over \$100,000 has been applied to aid the development of career paths into and through the racing industry. Some of those projects are riding simulators and riding gear for apprentice jockeys and licensing of under 30 year old harness and thoroughbred trainers plus the NZTR Ride to Time programme amongst Pony Club members.

Ride to Time is a joint initiative run by NZTR and New Zealand Pony Clubs Association which aims to teach riders to ride at a given pace over a set distance.

"This is a brand new programme which introduces young riders to the racing industry with an emphasis on safety and welfare. The program will educate riders about racing and teach them to travel safely at a gallop with good balance and rhythm," says NZTR Industry Training and Education Manager Chris Watson.

Ride to Time is our opportunity to engage with the young riders of New Zealand. It's exciting to ride on a racetrack and we hope to encourage them towards a career or part-time job in our industry. " says Watson.

More than \$300,000 was allocated to stakes enhancement initiatives across all three codes, while nearly \$600,000 was allocated to infrastructure projects such as the Ellerslie and Otaki track drainage, transportable gates in the northern, central and southern regions and greyhound track repairs.



**OVER \$100,000
HAS BEEN
APPLIED
TO AID THE
DEVELOPMENT
OF CAREER
PATHS INTO
AND THROUGH
THE RACING
INDUSTRY**

ANNUAL REPORT 2018

GOVERNANCE STATEMENT

The Racing Act 2003 sets out the authority, responsibilities, membership and operation of the New Zealand Racing Board (NZRB).

BOARD STRUCTURE AND COMPOSITION

The management of the business and affairs of NZRB takes place under the direction of its governing body, the Board. Under Section 11 of the Racing Act 2003, the Minister for Racing appoints a Board of seven members, consisting of:

- An independent Chairperson;
- Three members nominated by each of the three racing codes: New Zealand Thoroughbred Racing Inc; Harness Racing New Zealand Inc; and the New Zealand Greyhound Racing Association Inc;
- Three members recommended by a nomination advisory panel, comprising the Minister for Racing, the NZRB Chairperson and the Chairpersons of the three racing codes.

Board members are appointed for terms not exceeding three years, but may be eligible for reappointment. Five of the current Board members' terms expired in July 2018; however they will continue to hold Office until an appointment process has been concluded by the Minister.

At the start of the 2017/18 racing season the full Board consisted of:

- Glenda Hughes (Chair)
- Graham Cooney (Independent Director)
- Alistair Ryan (Independent Director)*
- Mauro Barsi (Greyhound Racing NZ Nominee)
- Rod Croon (Harness Racing NZ Nominee)
- Greg McCarthy (NZ Thoroughbred Racing Nominee)
- Bill Birnie (Independent Director)

* Alistair Ryan completed his term as an NZRB Independent Director on 31 March 2018. No replacement has yet been appointed.

As at 31 July 2018, the Executive Racing Board leadership team comprises:

- John Allen, Chief Executive Officer
- Janine Belcher, 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

HEALTH AND SAFETY TAKES WELLINGTON GOLD AWARD



With more than 800 staff in a range of roles in the field and office, implementing a comprehensive Health and Safety plan for such a large and diverse organisation has been a huge effort.

NZRB's commitment to providing a safe and healthy work environment for our people saw the organisation take out the ACC Workplace Safety Gold award at this year's Wellington Gold Awards. The award recognised the impressive results achieved following the introduction of a new strategic health and safety management plan in 2016, with the second phase kicking off in 2017.

In developing the plan, NZRB undertook employee engagement, hazard and risk assessments, and an extensive 36-month review of historical events and trends, with 126 different hazards and risks identified within NZRB's workplaces.

To address them, the plan implemented risk-targeted programs to engage staff and management, using wider industry knowledge and experience to tackle specific situations and a development of online e-inductions for all NZRB staff and contractors.

But a plan is only as good as the outcome and the results spoke volumes. ACC claims days reduced from 436 in 2015/16 to zero for the 2017/18 year. A competency program that focused on safe work with electricity and heights achieved 100% delivery, increasing awareness and a huge number of 'near miss' events and hazards being reported. Staff confidence was boosted, driver behaviour improved with a 78% reduction in speed between September 2017 and February 2018.

In winning the award, NZRB's Health and Safety Manager Jason Stapp said, "We were very proud even to have just been a finalist - everyone at NZRB has played a part in this success, it's fantastic."

ANNUAL REPORT 2018

GOVERNANCE STATEMENT (CONT'D)

**THE BOARD MET
11 TIMES DURING
THE YEAR TO
31 JULY 2018**

**EVERY MEETING
IS SUBJECT TO A
FORMAL AGENDA
AND REPORTING
PROCEDURES**

BOARD RESPONSIBILITIES

The Board meets regularly. The Chief Executive Officer, whose responsibility is the day-to-day operations of NZRB, also attends all Board meetings.

In accordance with Section 19 of the Racing Act 2003, NZRB submits a Statement of Intent for the upcoming three financial years, setting out its overall objectives, intentions and financial and performance targets. After due consultation with recognised industry organisations, the Statement of Intent is tabled by the Minister in Parliament.

The Board has responsibilities under the Health and Safety at Work Act 2015, to oversee NZRB's health and safety programme, including management of health and safety risks in the conduct of NZRB operations and workspaces. In the performance of its duties, the Board is assisted by the Health and Safety Manager in identifying, assessing and (where practicable) preventing risks; ensuring resources are properly allocated in health and safety activities; and monitoring operational activities that may have health and safety implications.

BOARD PROCESSES

The Board met 11 times during the year to 31 July 2018. Every meeting is subject to a formal agenda and reporting procedures. Agendas are prepared by the Board's Secretary, in conjunction with the Chief Executive Officer and the Chair.

NZRB maintains an Interests Register, in which the interests of its members are recorded. Board Members are expected to manage any conflicts of interest in accordance with the provisions of the Racing Act 2003.

BOARD COMMITTEES

The Board formally constituted five committees in 2017/18: the Dates Committee, the Audit and Risk Committee, the Compensation and Development Committee, the Net Proceeds Committee and the Customer and Technology Committee.

These committees support the Board by considering relevant issues at a detailed level and reporting back to the Board. This reporting will generally include the making of recommendations to the Board, except where specific decision-making authority has been delegated to the committee by the Board.

Committees are governed by charters setting out their roles and responsibilities, membership, functions, reporting procedures and the manner in which they operate.

DATES COMMITTEE

The Dates Committee was established in accordance with Section 42 of the Racing Act 2003, which requires the committee to be established and maintained in order to determine, in consultation with each of the recognised industry organisations:

- All the dates in the forthcoming racing year on which domestic betting races will occur;
- The allocation of those dates among racing clubs; and,
- Any conditions of allocation.

As at 31 July 2018, members of the Dates Committee are: Graham Cooney (Chair), Greg McCarthy, Rod Croon and Mauro Barsi.

ANNUAL REPORT 2018

GOVERNANCE STATEMENT (CONT'D)

AUDIT AND RISK COMMITTEE

The Audit and Risk Committee assists the Board in discharging its responsibilities with respect to financial reporting, the risk management practices of the NZRB, the work of the internal audit function and the NZRB's external auditor, PricewaterhouseCoopers.

The Audit and Risk Committee is responsible for the oversight of NZRB's external audit arrangements as set-out in NZRB's Auditor Independence Policy. The primary objective of this policy is to ensure that external audit independence is maintained to achieve reliability and credibility in NZRB's external financial reporting; this policy also provides guidance in the provision of non-audit services by any person engaged to perform external audit work for the NZRB to ensure that independence is not impaired under such circumstances.

The Audit and Risk Committee met five times during the year to 31 July 2018 and consists of Greg McCarthy (Chair), Graham Cooney and Bill Birnie. Alistair Ryan was also a member and the Chair of the Committee, up until 31 March 2018.

Risk oversight is provided through the Racing Board Leadership Team, supported by the Risk and Regulatory Affairs team who report to the General Manager Services. Although the General Manager Services position reports to the Chief Executive Officer, the role also has a matrix reporting line to the Chair of the Audit and Risk Committee.

The Investigations, Risk and Assurance team are charged with:

- Implementing an enterprise risk management framework;
- Developing and maintaining the organisation's policy framework;
- Monitoring and oversight of strategic and business risks;
- Oversight of risk incidents and control failures to enable feedback and rectification;
- Establishment of risk appetite and tolerance in relation to particular transactions and activities;

- Investigating suspicious or fraudulent activity around wagering and gambling activities;
- Managing NZRB's third party insurance programme;
- Establishing a regulatory compliance framework and oversight;
- Providing legal advice.

In performing its role, the function is adopting a focus of improving its performance and capabilities particularly in implementing a risk-based approach with a greater emphasis placed on those areas where the highest risk exists.

COMPENSATION AND DEVELOPMENT COMMITTEE

The Compensation and Development Committee monitors issues and determines policies and practices relating to the remuneration of the Chief Executive Officer, the Racing Board Leadership Team and all employees of the organisation. It also oversees management development and succession planning processes. For the year ended 31 July 2018, the Compensation and Development Committee's members were Rod Croon (Chair), Mauro Barsi and Alistair Ryan (to 31 March 2018).

NET PROCEEDS COMMITTEE

The Net Proceeds Committee was established to allocate the proceeds of the Class 4 gaming activity to racing and amateur sports bodies for authorised purposes. As at 31 July 2018, its members were: Graham Cooney (Chair), Glenda Hughes and Bill Birnie. Alistair Ryan was also a member up to 31 March 2018.

TECHNOLOGY COMMITTEE

The Customer and Technology Committee was established to oversee the strategic investment in NZRB's technology to support the rapid customer shift to digital channels and services as well as the customer and channel programme of work. As at 31 July 2018, its members were: Mauro Barsi (Chair), Rod Croon and Greg McCarthy. Alistair Ryan was also a member up to 31 March 2018.

ANNUAL REPORT 2018

GOVERNANCE STATEMENT (CONT'D)

BOARD MEMBERS AND REMUNERATION

	MEMBER'S REMUNERATION	BOARD MEETINGS	AUDIT & RISK COMMITTEE	DATES COMMITTEE	COMPENSATION & DEVELOPMENT COMMITTEE	NET PROCEEDS COMMITTEE	TECHNOLOGY COMMITTEE
Mauro Barsi	41,000	10	-	4	2	-	3
Bill Birnie	38,000	11	5	-	-	6	-
Graham Cooney	49,000	11	5	4	-	6	-
Rod Croon	44,000	11	-	4	2	-	3
Glenda Hughes	70,000	11	-	-	-	5	-
Greg McCarthy	42,000	11	5	4	-	-	3
Alistair Ryan	28,666	6	3	-	1	3	3
TOTAL	312,666	11	5	4	2	6	3

Note: Alistair Ryan retired from the NZRB Board effective 31 March 2018.

EMPLOYEE REMUNERATION BANDING EQUAL TO OR OVER \$100K

The table below shows the number of people employed as at 31 July 2018 of the NZRB Group (including Racing Integrity Unit), not being directors, who, in their capacity as employees, received remuneration and other benefits during 2017/18 of at least NZ\$100,000.

The remuneration figures shown include all monetary payments actually made during the year, including incentives and allowances but excluding redundancies.

NZ\$000	2017/ 18	2016/ 17
100-110	35	27
110-120	18	21
120-130	18	16
130-140	20	16
140-150	8	10
150-160	9	9
160-170	7	10
170-180	7	4
180-190	3	1
190-200	3	2
200-210	-	1
210-220	1	1

NZ\$000	2017/ 18	2016/ 17
220-230	2	1
230-240	1	-
240-250	1	2
250-260	2	1
270-280	1	-
290-300	-	1
300-310	3	1
340-350	-	1
350-360	1	1
360-370	1	1
370-380	1	-
650-660	-	1
670-680	1	-

For most customers, betting on racing and sports or playing gaming machines is a fun, safe and exciting pastime. However some people are at risk from the impact of problem gambling. NZRB is committed to the highest and most robust standards in addressing the issue by providing industry-leading programmes in partnership with the Ministry of Health (MoH), Department of Internal Affairs (DIA), the Health Promotion Agency (HPA) and other problem gambling support services.

Under the Gaming Act 2001 and the Gambling Act 2003, the TAB can only accept bets on racing and sports events and may also operate gaming machines. The legislation sets out strict harm prevention and minimisation obligations. The Gambling (Gambling Harm Reduction) Amendment Act 2013 also imposes further obligations. NZRB ensures its training programmes and harm minimisation procedures go above and beyond the statutory requirements set out in both.

FOCUS ON HARM PREVENTION AND MINIMISATION

As part of its focus on harm prevention and minimisation, NZRB works with industry partners on raising awareness of problem gambling and sporting integrity, maintains strong relationships with government officials, and works alongside problem gambling support agencies to better understand customer needs.

The NZRB endorses the MoH's strategies and programmes in this area, and is a representative in the Stakeholder Reference Group coordinated by the DIA, in participation with the MoH.

This is an important opportunity to contribute, alongside other industry providers and parties, to the discussion on key issues within the sector from a harm prevention and minimisation perspective.

In 2017/18, \$118,500 was invested in the provision of training in harm minimisation and prevention procedures for staff in customer-contact roles within NZRB and the wider racing industry in order to ensure leadership continues to be taken in this area. This amount is consistent with last year.

IDENTIFICATION AND MANAGEMENT

The TAB has developed both proactive and reactive approaches to the identification and investigation of potential problem gambling situations.

It is a requirement in the TAB Retail Agency Contract that all store staff who oversee the sale of bets undertake appropriate and robust problem gambling training to help meet responsibilities around harm prevention and minimisation.

The NZRB provides training programmes, developed in conjunction with the HPA and DIA, allowing staff to undertake TAB and Class 4 problem gambling awareness training online.

Exception reporting is conducted aimed at identifying any significant changes or concerns around the betting behaviour of account customers.

With these processes and staff training in place 2017/18 saw 636 customers issued with exclusion notices (both self-exclusion and by NZRB), while 31 account customers were placed in the Set Your Limits betting restriction programme. These numbers represent an extremely small percentage of the TAB customer base.

GAMBLING RESTRICTION PROGRAMMES

NZRB offers self-exclusion and betting limit programmes to support customers who may wish to restrict their betting activity, and provide information online and in-store for customers on where they can seek problem gambling help.

The Set Your Limits programme is available to all TAB account customers, allowing them to request the TAB place a limit or cap on account betting activity.

Under the Multi-venue self-exclusion programme, any customer can voluntarily arrange for access to TAB betting services to be denied for a period of up to 24 months. At the end of this term the exclusion will lapse only with the agreement of NZRB.

The TAB also offers an "Account Only" exclusion programme. Through this programme a client can request to have themselves blocked from operating a TAB account but not from betting at our retail stores in cash. NZRB can also choose to exclude customers from having TAB accounts.

These programmes provide customers with practical ways of helping them control their betting behaviour while still allowing them the enjoyment of racing and sports bets and playing gaming machines.

ANNUAL REPORT 2018

CLASS 4 GAMING DISTRIBUTIONS

In 2017/18, NZRB returned more than \$16 million to the community through our sports and racing authorised purposes; \$12.8 million was distributed to racing authorised purposes, and \$3.4 million was distributed under sports authorised purposes, with 543 grants made to community sporting groups.

NZRB is a licensed Class 4 Gaming operator, with 44 of our 67 TAB Board venues hosting NZRB gaming machines.

It is estimated NZRB operates around 3.9% of the total number of Class 4 venues and around 3.2% of the total number of gaming machines in the New Zealand market.

Net proceeds from the gaming operation are split with at least 80% funding racing authorised purposes and up to 20% distributed to communities across New Zealand through amateur sporting organisations.

RACING AUTHORISED PURPOSE

Racing Integrity Unit

Racing Laboratory Services

Judicial Control Authority

The Races Limited partnership

Other gaming distribution to the racing industry

Race form and racing calendar publications

Event Marketing & Logistics

Stakes Enhancement Grant

Infrastructure Grant

Youth Retention Grant

TOTAL NET DISTRIBUTIONS TO RACING AUTHORISED PURPOSE (racing industry)

	2017/18	2016/17
Racing Integrity Unit	6,280,000	6,033,500
Racing Laboratory Services	1,877,871	1,820,801
Judicial Control Authority	1,380,000	1,300,000
The Races Limited partnership	909,000	-
Other gaming distribution to the racing industry		
<i>Race form and racing calendar publications</i>	1,283,623	1,398,280
<i>Event Marketing & Logistics</i>	-	1,156,995
<i>Stakes Enhancement Grant</i>	325,500	535,555
<i>Infrastructure Grant</i>	587,587	20,000
<i>Youth Retention Grant</i>	126,559	8,470
TOTAL NET DISTRIBUTIONS TO RACING AUTHORISED PURPOSE (racing industry)	12,770,140	12,273,601

SPORTS AUTHORISED PURPOSE

Distributions to sports authorised purpose

Sports authorised purpose grants returned

NET GRANTS TO SPORTS AUTHORISED PURPOSE

	2017/18	2016/17
Distributions to sports authorised purpose	3,464,249	3,212,239
Sports authorised purpose grants returned	-74,226	-38,554
NET GRANTS TO SPORTS AUTHORISED PURPOSE	3,390,023	3,173,685

A further \$154,000 was approved for sports authorised purposes but not yet paid out as at year end.

BRINGING GROUPS TOGETHER TO SUPPORT KIWI GRASSROOTS SPORT

In 2017/18, NZRB distributed \$3.4 million under sports authorised purposes gaming grants, with 543 grants made to community sporting groups around the country. As a way to bring the groups together and recognise how these grants support local grassroots sport in NZ, NZRB introduced new sports grants presentations late last year, bringing in our TAB Ambassadors to meet with community groups and celebrate their great work.

Taupo Lake Cricket Club (TLCC) is one of clubs that attended the latest sports grant presentation, held in the Waikato. TLCC received a grant of \$3,984 to go towards their transport funds. Created in 2016, TLCC is Taupo's first and only cricket club. The club participates in the greater Bay

of Plenty competition and team members regularly have to travel long distances for away games. TLCC's founding members attended the presentation, getting the chance to meet TAB Sports Ambassadors Stephen Donald and Anita McLaren.

"The presentations are a celebration of the gaming grant process," says Niall Miller, NZRB's Gaming Licence Manager. The presentations allow clubs, like Taupo Lake Cricket Club, a chance to meet other like minded sporting organisations and the TAB's Sports Ambassadors. The presentations give an insight to where and how the money they receive will be used, while also giving NZRB the opportunity to meet the people, face-to-face, who in turn support our fantastic local Kiwi sport.

ANNUAL REPORT 2018

FIVE YEAR TRENDS

FIVE YEAR FINANCIAL SUMMARY

FULL YEAR (\$M)	2017/18	2016/17	2015/16	2014/15 ⁽¹⁾	2013/14
Statement of Profit or Loss					
Total turnover	2,738.4	2,680.9	2,673.4	2,389.7	2,088.5
Net betting margin	12.7%	12.4%	12.4%	12.9%	13.9%
Total revenue	359.2	348.7	351.9	336.4	312.5
Turnover related expenses	68.9	68.4	66.4	64.6	47.0
Operating expenses ⁽²⁾	144.4	136.3	138.8	127.8	128.4
Operating expenses/total income	40.2%	39.1%	39.4%	38.0%	41.1%
Net profit before distributions	145.9	144.0	146.7	144.0	137.0
Distributions to racing industry (including Racing Integrity Unit) ⁽³⁾	163.6	149.8	147.0	144.8	142.3
Group distributions to racing industry (excluding Racing Integrity Unit) ⁽⁴⁾	157.3	143.8	141.1	139.0	136.6
Distributions to sporting community organisations	3.4	3.2	3.0	2.7	2.3
Returns to national sporting organisations	10.2	9.3	8.0	6.1	5.0
Statement of Financial Position					
Total assets	130.1	136.7	139.9	131.9	125.0
Current assets	61.1	77.8	74.9	64.7	64.2
Current liabilities	63.4	63.6	62.1	56.7	55.8
Current assets to current liabilities ratio	1.0	1.2	1.2	1.1	1.2
Equity	53.5	69.3	73.8	70.8	68.1

⁽¹⁾ 2014/15 figures have been restated to reflect financial reporting changes made in the 2015/16 financial year. The changes include the reclassification of advertising & promotions and race form publications from operating expenses to turnover related expenses. As a result the operating expenses/total income ratio for 2014/15 has decreased from 41.4% to 38.0%. 2012/13 and 2013/14 have not been restated.

⁽²⁾ 2017/18 operating expenses include planned investments in strategic initiatives and other projects of \$9.9 million; excluding the impact of these projects, the year on year increase is 0.6%.

⁽³⁾ Note 5 of the Financial Statements on page 51 shows the distribution information in more detail

⁽⁴⁾ Group distributions reflect the distributions of the NZRB Group. The NZRB Group include the RIU results and therefore, the distributions to RIU are eliminated (excluded) from the Group distributions. The total distributions to RIU in 2017/18 were \$6.3 million (2016/17: \$6.0 million).

FIVE YEAR RACE SUMMARY

	2017/18	2016/17	2015/16	2014/15	2013/14
Greyhound	5,903	5,624	5,573	5,353	5,381
Harness	2,483	2,492	2,595	2,654	2,795
Thoroughbred	2,568	2,564	2,790	2,848	2,875
TOTAL	10,954	10,680	10,958	10,855	11,051
Imported	73,169	69,083	67,165	65,612	58,388
Exported	10,515	10,300	10,612	10,133	10,206

ANNUAL REPORT 2018

FINANCIAL COMMENTARY

For the year ended 31 July 2018 (against last year and budget)

The following financial commentary compares NZRB's actual results in FY18 against last year's actuals and FY18 budget as presented in NZRB's Statement of Intent 2018-2020 approved by the Board on 19 July 2017.

The New Zealand Racing Board (NZRB) achieved an underlying operating profit for the year ended 31 July 2018 of \$154.9 million, ahead of Budget by \$1.1 million (0.7%) and ahead of last year by \$6.9 million (4.7%).

Including the investment in our strategic and other initiatives, reported net profit was \$145.9 million, \$0.8 million (0.5%) below budget and \$1.9 million (1.3%) ahead of last year.

		ACTUAL 31 JULY 2018 \$M	ACTUAL 31 JULY 2017 \$M	UNAUDITED BUDGET 31 JULY 2018 \$M
Betting and gaming turnover	6a	2,738.4	2,680.9	2,855.2
Total revenue	3	359.2	348.7	370.1
Net profit before distributions	3	145.9	144.0	146.7
Total group distributions	5	159.1	146.2	162.3

The comparison to last year is found in the Statement of Profit or Loss and Other Comprehensive Income found on page 37 of the Financial Statements.

The comparison to Budget is found in the Supplementary information section found on page 71.

UNDERLYING OPERATING PROFIT RECONCILIATION	ACTUAL 31 JULY 2018 \$M	ACTUAL 31 JULY 2017 \$M	UNAUDITED BUDGET 31 JULY 2018 \$M
Net profit before distributions	145.9	144.0	146.7
Strategic initiatives investment (net of revenue)	8.3	4.6	7.1
Other costs	0.7	-	-
Gain on sale of buildings	-	(0.6)	-
Underlying operating profit before distributions	154.9	148.0	153.9

The reconciliation between the reported net profit before distributions and the underlying operating profit is found in Note 3 of the Financial Statements.

BETTING AND GAMING TURNOVER

Total turnover was \$57.6 million (+2.1%) ahead of last year due to growth in betting turnover (\$17.8 million ahead of last year) complemented by a strong performance in gaming turnover (\$39.8 million ahead of last year).

Betting turnover of \$2.3 billion has seen a positive performance on last year, up \$17.8 million (+0.8%), despite the impact of Tabcorp commingling restrictions that limited betting activity by our VIP customers into Australian hosted pools (\$19.6 million) and a large number of domestic race abandonments. Excluding VIPs, betting turnover grew by \$34.0 million (+1.6%).

The growth in betting turnover was driven by a combination of strong customer acquisition (active account customers up +20.0% on last year) through numerous successful marketing campaigns such as the Lion's Tour, Spring Racing Carnival and FIFA World Cup, and significant growth in digital channels via product and feature enhancements to the TAB Website and Mobile App. This growth was partly impacted by higher net betting margin performance, up +0.3ppts on last year to 12.7% which impacted betting churn (customers recycling their winnings) resulting in lower turnover (-\$122.8 million or -5.2% down on Budget).

ANNUAL REPORT 2018

FINANCIAL COMMENTARY (CONT'D)

For the year ended 31 July 2018 (against last year and budget)

Key movements year on year are as follows:

- Racing fixed odds turnover grew by \$38.2 million (+5.7%).
- Racing tote turnover decreased by \$49.6 million (-5.0%).
Excluding VIP, racing tote decreased by \$33.4 million (-3.7%).
- Sports turnover grew by \$29.3 million (+5.1%).

Gaming turnover of \$476.0 million continued to perform strongly, increasing by \$39.8 million (+9.1%) on last year and \$6.0 million (+1.3%) ahead of Budget. Major contributors to the growth in gaming turnover include the continued investment in new and existing venues and improvements in the performance of gaming machines as well as the positive impact of a new venue during the year (i.e. Greerton which opened on 16 October 2017) combined by the full year results of two venues that opened in late FY17 (i.e. Lower Hutt which opened on 31 July 2017 and Mangere Bridge which opened on 14 June 2017).

REVENUE

Total revenue was \$359.2 million, an increase of \$10.6 million (+3.0%) compared to last year. This was mainly driven by an increase in net betting and gaming revenue, offset slightly by a decrease in other revenue attributable to the loss of revenue generated from the operation of EML (ownership of EML was transferred to the equine codes in August 2017), lower broadcasting and interest income and the gain on sale of the Hamilton building that was reported last year.

Net betting revenue increased by \$10.1 million (+3.6%) on last year due to the increase in betting turnover mentioned above as a result of strong customer acquisition and growth in digital channels and stronger net betting margins of 12.7% (+0.3ppts). Product margins improved across most categories, particularly in Sports up +1.1ppts to 8.3% and Racing FOB up +0.7ppts to 12.4%. Compared to Budget, net betting revenue was slightly down \$0.3 million (-0.1%).

Net gaming revenue grew strongly, ahead of last year by \$2.1 million (+8.6%) due to the continued investment in existing venues including gaming conversions and refurbishments as well as the opening of one new venue and the full year impact of two other stores that opened last year. Compared to Budget, net gaming revenue was

\$0.1 million ahead driven by growth in gaming turnover being \$6.0 million (+1.3%) above Budget slightly offset by a lower gaming margin, down -0.05 ppts at 5.7%.

New Zealand racing shown overseas revenue was marginally down on last year by \$0.1 million (-0.4%) impacted by a large number of domestic race abandonments, Sky Racing scheduling changes made by Tabcorp in the second half of the year and the closure of Luxbet (part of Tabcorp) during FY18. Compared to Budget, export revenue was down by \$6.3 million (-23.4%) mainly driven by the Racing Amendment Bill not being passed into law as initially anticipated resulting in delay in budgeted revenue of \$4.6 million from overseas bookmakers betting on New Zealand racing.

Other revenue was \$1.6 million (-6.1%) lower than last year driven by the loss of revenue recovered from racing clubs (\$0.6 million) as a result of the EML operation being transferred to The Races Limited Partnership (TRLP) in August 2017, a reduction in broadcasting revenue relating to a fall in Sky NZ subscription numbers (\$0.5 million) and lower interest income of \$0.5 million due mainly to the reinvestment of surplus cash reserves in the strategic initiatives and additional distributions made to the racing industry in 2018. Last year's other revenue balance also included \$0.6 million from the gain on sale of Hamilton building which was a one-off revenue and is not present in the current year.

EXPENSES

Underlying turnover related expenses (excluding the impact strategic initiatives and other costs) were \$65.5 million, \$0.9 million below last year (-1.4%) and \$5.3 million below Budget. Key savings realised in 2018 includes lower advertising and promotional spend (\$0.5 million), favourable product mix impacting overseas racing fees (\$0.6 million) and optimisation of the Retail network (\$0.3 million) - these were partly offset by higher NSO levies (\$0.6 million) resulting from increased Sports turnover. The variance to Budget largely relates to lower than anticipated Sports turnover (-12.6%) impacting NSO levies, product mix of overseas racing and savings within advertising and promotional spend.

ANNUAL REPORT 2018

FINANCIAL COMMENTARY (CONT'D)

For the year ended 31 July 2018 (against last year and budget)

Total reported turnover related expenses of \$68.9 million were \$0.5 million (+0.8%) higher than last year that includes the planned increase in investment behind the strategic initiatives (\$1.5 million) partly offset by savings realised in underlying advertising, promotional and turnover related expense items (-\$0.9 million) summarised above.

Underlying operating expenses (excluding the impact strategic initiatives and other costs) of \$134.5 million increased by \$0.8 million (+0.6%) on last year although remains lower than 2016 actuals of \$138.7 million and were \$1.7 million below Budget. Effective cost management remains an ongoing focus across the organisation with a significant reduction in underlying staff costs of \$3.1 million (5.1%) achieved year on year combined with cost savings realised in broadcasting (\$0.2 million) and premises and equipment (\$0.3 million). This was offset by an increase in communications and technology costs of \$1.5 million that underpins the continued investment in our technology infrastructure and IT operating platforms combined with an increase in other expenses of \$2.8 million that relates specifically to the loss of EML cost recoveries (\$1.1 million) following the transfer to TRLP, higher merchant fees (\$0.5 million) relating to an increase in customer account deposits, PCI compliance programme (\$0.9 million) required as part of our merchant services and an increase in Health and Safety costs (\$0.1 million) in line with legislative requirements.

Total reported operating expenses of \$144.4 million were \$8.1 million (+5.9%) higher than last year driven mainly by the planned increase in investment behind the strategic initiatives and other costs (\$7.2 million) that was \$4.8 million (-3.2%) below Budget. This covers Fixed Odds Betting (\$3.8 million), Customer & Channels (\$2.2 million), Optimise the Calendar (\$0.7 million) and AML programme (\$0.7 million) partly offset by lower than anticipated spend incurred on progressing Racefields legislation in 2018 (-\$0.2 million).

UNDERLYING OPERATING PROFIT BEFORE DISTRIBUTIONS

The underlying operating profit excludes the impact of any revenue and costs associated with strategic initiatives and AML regulatory costs in order to show NZRB's operating performance in a more comparable and meaningful manner.

2017/18 represents an important year whereby changes to the Racing Calendar and implementation of key initiatives under the Customer programme coupled with new offshore wagering agreements established with corporate bookmakers have delivered positive financial results totalling \$4.3 million in revenue and \$3.8 million in variable profit contribution (excluding brand investment included under advertising and promotion marketing expenses).

During the 2017/18 year, NZRB's underlying operating profit (after adjusting for revenues of \$4.3 million and costs of \$12.8 million) was \$154.9 million which is \$6.9 million (+4.7%) ahead of last year and \$1.1 million (+0.7%) above the budgeted operating profit of \$153.9 million.

Strong customer growth, improved betting margins and tight cost discipline were key contributors to the overall positive profit result. This is a particularly strong result given underlying profit contribution was negatively impacted by VIP commingling restrictions under the new terms of the agreements with Tabcorp (-\$1.6 million) combined with a large number of domestic race abandonments (32) that represents a potential loss in profit of \$2.5 million to the industry.

REPORTED NET PROFIT BEFORE DISTRIBUTIONS

Reported net profit before distributions was \$145.9 million, \$1.9 million (+1.3%) above last year and slightly below Budget by \$0.8 million despite the delay in anticipated Racefields income. The higher net profit result in 2018 represents a particularly strong performance that includes an uplift in revenue directly attributable to the strategic initiatives being \$4.3 million, offset by the planned increase in investment behind the strategic initiatives (\$8.0 million) and other costs (\$0.7 million) as well as the gain on Hamilton building of \$0.6 million reported in the 2017 year.

In comparison to Budget, the \$0.8 million variance is attributable to the delay in Racefields legislation and associated budgeted income (\$4.9 million) not realised during the 2018 year that was largely offset by a stronger underlying operating profit performance and incremental revenue generated from the key strategic initiatives.

ANNUAL REPORT 2018

FINANCIAL COMMENTARY (CONT'D)

For the year ended 31 July 2018 (against last year and budget)

DISTRIBUTIONS

Total distributions to both the racing industry and sporting community organisations increased significantly by \$12.9 million (+8.8%) on last year and \$3.2 million (-2.0%) below Budget at \$159.1 million. Total distributions to the Racing Codes from Betting in 2017/18 was \$150.8 million, \$13.2 million (+9.6%) ahead of last year that supported an important boost in funding to the Racing Industry of \$12 million, that has seen a corresponding lift in stakes money across all codes. Gaming distribution was lower than budget by \$3.2 million due to timing of distribution of gaming profit.

BALANCE SHEET

NZRB's balance sheet as at 31 July 2018 reflects the impact of the planned investment in the strategic initiatives funded from available cash (equity) and borrowings.

ASSETS

Current assets of \$61.1 million have decreased by \$16.7 million (-21.5%) mainly driven by the reduction in cash and term deposit balances (\$26.3 million) being reinvested in the strategic initiatives and other significant projects such as Vision Capture during the year. This also includes the additional funding of \$12 million paid in distributions to the Racing Codes that has seen a corresponding lift in stakes money across all codes.

A lower trade receivables balance by \$2.5 million year on year also impacted on current assets as a result of differences in the timing of year end close (2017/18 year closed on a Tuesday versus Monday in the previous year with corresponding difference in settlement of receivable balances for retail outlets and internet receipts). Moreover, current assets held for sale reported in 2016/17 year for \$1.2 million relating to the sale of EML assets to The Races Limited Partnership (TRLP) have been settled in 2017/18 through a long-term loan from TRLP.

The above mentioned movements were offset by higher prepaid assets (\$7.2 million) which includes software support costs associated with the FOB initiative (\$2.2

million); phase 2 of the Vision Capture project (\$4.4 million) representing the build cost of the OB Vans and trailer which were physically received by NZRB in early August 2018; and \$0.6 millions sundry prepayments. In addition, Betting Accounts and Vouchers Trust term deposits increased by \$3.0 million (+13.6%) while non-current industry loan of \$2.8 million to RACE Inc was reported as current in 2017/18 year reflecting the expectation of the loan being repaid during the 2018/19 year.

Non-current assets have increased from last year by \$10.1 million (+17.2%) due to the investment in property, plant & equipment (PP&E) and intangible assets mainly in relation to the strategic initiatives (\$32.4 million), offset in part by annual depreciation and amortisation charges (\$19.8 million).

As noted above, other non-current financial asset decreased by \$1.7 million (-55.6%) as a result of the industry loan of \$2.8 million to RACE Inc being reclassified as current offset by a new loan issued to TRLP of \$1.2 million.

Non-current assets are below Budget by \$18.5 million due to combination of lower than anticipated capital expenditure timing related (\$9.1 million) and various capital spend classified as current prepayments (\$6.7 million) as mentioned above.

LIABILITIES

Current liabilities of \$63.4 million have slightly increased by \$0.2 million (+0.3%) compared to last year driven by higher trade payables (\$1.9 million or +7.1%) and higher provision balances by \$1.7 million (+71.8%) which relates to net movement in undistributed gaming net profit. These movements are offset by lower customer account balances (-\$1.4 million or -5.7%), outstanding unclaimed dividend balance (-\$1.7 million or -32.6%) and tax provisions (-\$0.4 million or -9.9%).

ANNUAL REPORT 2018

FINANCIAL COMMENTARY (CONT'D)

For the year ended 31 July 2018 (against last year and budget)

Total non-current liabilities is higher than last year by \$9.5 million due to borrowings of \$10.0 million that has been used to finance the strategic capital investment requirements which is partly offset by a reduction in finance lease liabilities and provisions (\$0.5 million or -14.4%).

NZRB's current liquidity position (with current liabilities being higher than current assets by \$2.3 million) reflects its planned capital funding strategy through a transitional period to invest in critically important growth strategic initiatives (reported as part of non-current assets) while also increasing distributions to the racing industry to support a lift in stakes money across all codes during the year. NZRB manages its working capital position through positive operational results and short term investments combined with a prudent borrowing strategy which minimises finance costs.

Total liabilities are below Budget by \$8.8 million (-10.3%) due to a lower than expected level of borrowings (-\$10.5 million) and customer account deposits (-\$2.5 million or -9.8%) following a strong profit result in 2017/18 which is partly offset by a higher balance of trade payables (+\$5.9 million or 26.2%).

EQUITY

Total equity is \$53.5 million as at 31 July 2018, decreasing by \$15.9 million (-22.9%) on last year and \$2.3 million (-4.2%) lower than Budget due to planned investment in the strategic initiatives of \$12.6 million net (reflects total investment of \$38.3 million less \$25.7 million capitalisation) combined with additional distributions to both the racing industry and sporting community organisations of \$12.9 million (+8.8%). This was partly offset by external borrowings during the year of \$10.0 million that has been used to support the investment in the strategic initiatives.

	ACTUAL 31 JULY 2018 \$M	ACTUAL 31 JULY 2017 \$M	UNAUDITED BUDGET 31 JULY 2018 \$M
Current assets	61.1	77.8	53.7
Non-current assets	69.0	58.9	87.5
TOTAL ASSETS	130.1	136.7	141.2
Current liabilities	63.4	63.6	61.4
Non-current liabilities	13.2	3.7	24.0
TOTAL LIABILITIES	76.6	67.4	85.4
TOTAL EQUITY	53.5	69.3	55.8
TOTAL LIABILITIES AND EQUITY	130.1	136.7	141.2

The comparison of last year's Statement of Financial Position to the current year is located on page 39 of the Financial Statements. The comparison to the Budget is found in the Supplementary information section found on page 73.

ANNUAL REPORT 2018

FINANCIAL STATEMENTS



FOR YEAR ENDED 31 JULY 2018

AUDITOR'S REPORT	35
STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	37
STATEMENTS OF CHANGES IN EQUITY	38
STATEMENTS OF FINANCIAL POSITION	39
STATEMENTS OF CASH FLOWS	40
NOTES TO THE FINANCIAL STATEMENTS	42





Independent auditor's report

To the directors of The New Zealand Racing Board

The financial statements comprise:

- the statements of financial position as at 31 July 2018;
- the statements of profit or loss and other comprehensive income for the year then ended;
- the statements of changes in equity for the year then ended;
- the statements of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the financial statements of The New Zealand Racing Board (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 31 July 2018, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs NZ) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other services for the Company in the areas of advisory related services. The provision of these other services has not impaired our independence as auditor of the Group.

Information other than the financial statements and auditor's report

The Directors are responsible for the annual report. Our opinion on the financial statements does not cover the other information included in the annual report and we do not, and will not express any form of assurance conclusion on the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard, except that not all other information was available to us at the date of our signing.

Responsibilities of the Directors for the financial statements

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

<https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-7/>

This description forms part of our auditor's report.

Who we report to

This report is made solely to the Company's directors, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's directors, as a body, for our audit work, for this report or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Kevin Brown.

For and on behalf of:



Chartered Accountants
25 October 2018

Wellington

ANNUAL REPORT 2018

FINANCIAL STATEMENTS (CONT'D)

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 JULY 2018

	NOTE	2018 \$000	2017 \$000
Betting and gaming turnover	6a	2,738,422	2,680,854
REVENUE			
Net betting revenue	6b	287,572	277,490
Net gaming revenue	6c	26,970	24,835
NZ racing revenue shown overseas	6d	20,529	20,616
Other revenue	7	24,178	25,756
TOTAL REVENUE		359,249	348,697
TURNOVER RELATED EXPENSES	8	68,933	68,401
OPERATING EXPENSES			
Broadcasting expenses		9,495	9,727
Communication and technology expenses	9a	20,836	17,631
Depreciation and amortisation	17, 18	19,800	16,206
Foreign exchange (gain)/loss		29	(29)
Premises and equipment expenses	9b	14,982	14,924
Staff expenses	9c	62,758	63,689
Other expenses	9d	16,475	14,132
TOTAL OPERATING EXPENSES		144,375	136,280
TOTAL EXPENSES		213,308	204,681
NET PROFIT BEFORE DISTRIBUTIONS *	3	145,941	144,016
Distributions from betting	5	150,800	137,563
Distributions from gaming	5	8,311	8,639
Provision for undistributed gaming net profit	22	3,256	1,568
NET LOSS AFTER DISTRIBUTIONS	4	(16,426)	(3,754)
OTHER COMPREHENSIVE INCOME/LOSS			
Movement in fair value of cash flow hedges **		575	(707)
TOTAL OTHER COMPREHENSIVE LOSS FOR THE YEAR		(15,851)	(4,461)
TOTAL OTHER COMPREHENSIVE LOSS ATTRIBUTABLE TO:			
NZRB reserves		(15,845)	(4,448)
Non-controlling interests in Racing Integrity Unit Limited (RIU)		(6)	(13)
		(15,851)	(4,461)

* For a reconciliation between the reported net profit before distributions and the underlying operating profit before distributions refer to Note 3.

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

ANNUAL REPORT 2018

FINANCIAL STATEMENTS (CONT'D)

STATEMENTS OF CHANGES IN EQUITY *FOR THE YEAR ENDED 31 JULY 2018*

	Attributable to NZRB		Attributable to non-controlling interest in RIU	TOTAL GROUP EQUITY
	General reserve	Hedging reserve		
	\$000	\$000	\$000	\$000
Balance as at 1 August 2016	73,047	489	233	73,769
Net loss after distributions	(3,741)	-	(13)	(3,754)
Other comprehensive loss	-	(707)	-	(707)
Balance as at 31 July 2017	69,306	(218)	220	69,308
Net loss after distributions	(16,420)	-	(6)	(16,426)
Other comprehensive income	-	575	-	575
Balance as at 31 July 2018	52,886	357	214	53,457



ANNUAL REPORT 2018

FINANCIAL STATEMENTS (CONT'D)

STATEMENTS OF FINANCIAL POSITION AS AT 31 JULY 2018

	NOTE	2018 \$000	2017 \$000
CURRENT ASSETS			
Cash and cash equivalents	11	17,701	29,017
Trade and other receivables	12	6,563	9,071
Non-current assets held for sale	19	-	1,220
Other financial assets	13	27,756	37,000
Derivative assets		347	-
Other current assets	14	8,707	1,498
TOTAL CURRENT ASSETS		61,074	77,806
NON-CURRENT ASSETS			
Property, plant and equipment	17	36,497	39,284
Intangible assets (including software assets)	18	29,433	13,983
Other financial assets	13	1,333	3,003
Other non-current assets	14	1,732	2,596
TOTAL NON-CURRENT ASSETS		68,995	58,866
TOTAL ASSETS		130,069	136,672
CURRENT LIABILITIES			
Trade and other payables	15	28,638	26,744
Current liabilities held for sale	19	-	61
Customer betting account deposits and vouchers	16	23,366	24,779
Other financial liabilities	21	3,525	5,232
Derivative liabilities		-	214
Taxation payable		3,785	4,199
Provisions	22	4,075	2,372
TOTAL CURRENT LIABILITIES		63,389	63,601
NON-CURRENT LIABILITIES			
Borrowings	20	10,000	-
Other financial liabilities	21	2,360	2,711
Provisions	22	863	1,052
TOTAL NON-CURRENT LIABILITIES		13,223	3,763
TOTAL LIABILITIES		76,612	67,364
TOTAL EQUITY		53,457	69,308
TOTAL LIABILITIES AND EQUITY		130,069	136,672

The Board members of the New Zealand Racing Board authorised these financial statements for issue on 25 October 2018.



Glenda Hughes

Chair of the New Zealand Racing Board



Greg McCarthy

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

ANNUAL REPORT 2018

FINANCIAL STATEMENTS (CONT'D)

STATEMENTS OF CASH FLOWS *FOR THE YEAR ENDED 31 JULY 2018*

	2018 \$000	2017 \$000
CASH FLOWS FROM OPERATING ACTIVITIES		
INFLOWS		
Betting and gaming turnover	2,737,099	2,679,799
International racing fees and other income	35,343	36,054
Racing services income	13,747	13,468
Jackpot retentions and account deposits (net)	(1,865)	311
TOTAL INFLOWS FROM OPERATING ACTIVITIES	2,784,324	2,729,632
OUTFLOWS		
Betting and gaming dividends paid	(2,347,368)	(2,304,863)
Betting and gaming GST paid	(52,632)	(50,651)
Betting and gaming duty paid and problem gambling levy	(24,171)	(22,763)
National sporting organisations grants	(10,245)	(8,728)
Payments to suppliers	(123,846)	(118,759)
Payments for employee benefits including termination payments and contractors	(61,260)	(64,552)
TOTAL OUTFLOWS FROM OPERATING ACTIVITIES	(2,619,522)	(2,570,316)
NET CASH PROVIDED BY OPERATING FACILITIES	164,802	159,316
CASH FLOWS FROM INVESTING ACTIVITIES		
INFLOWS		
Interest received	1,330	1,944
Proceeds from sale of property, plant and equipment	-	1,400
Repayment of industry loans	248	-
Repayment of short-term deposits	15,000	-
TOTAL INFLOWS FROM INVESTING ACTIVITIES	16,578	3,344
OUTFLOWS		
Investment of short-term deposits	(3,000)	(6,000)
Drawdown of industry loans	(1,248)	(250)
Purchases of property, plant and equipment	(24,080)	(6,761)
Purchases of intangible assets	(13,031)	(3,586)
TOTAL OUTFLOWS FROM INVESTING ACTIVITIES	(41,359)	(16,597)
NET CASH USED IN INVESTING ACTIVITIES	(24,781)	(13,253)
CASH FLOWS FROM FINANCING ACTIVITIES		
INFLOWS		
Drawdown of borrowings	10,000	-
TOTAL INFLOWS FROM FINANCING ACTIVITIES	10,000	-
OUTFLOWS		
Interest paid	(245)	(338)
Repayment of finance lease	(318)	(287)
Distributions to the racing codes	(147,272)	(139,384)
Distributions to the racing industry (TRLP)	(2,600)	-
Gaming distributions for racing industry costs	(7,871)	(4,086)
Gaming distribution to external bodies	(3,390)	(3,636)
TOTAL OUTFLOWS FROM FINANCING ACTIVITIES	(161,696)	(147,731)
NET CASH USED IN FINANCING ACTIVITIES	(151,696)	(147,731)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(11,675)	(1,668)
Cash and cash equivalents as at the beginning of the year	29,017	30,807
Foreign exchange gain / (loss) on cash and cash equivalents	359	(122)
CASH AND CASH EQUIVALENTS AS AT THE END OF THE YEAR	17,701	29,017

ANNUAL REPORT 2018

FINANCIAL STATEMENTS (CONT'D)

STATEMENTS OF CASH FLOWS *FOR THE YEAR ENDED 31 JULY 2018* (CONTINUED)

RECONCILIATION OF NET PROFIT TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	2018 \$000	2017 \$000
NET LOSS AFTER DISTRIBUTIONS	(16,426)	(3,754)
NON-CASH ITEMS		
Depreciation and amortisation expense	19,800	16,206
Increase in provision for doubtful debts	285	71
Impairment	100	267
Other non-cash items	276	(197)
TOTAL NON-CASH ITEMS	20,461	16,347
ITEMS CLASSIFIED AS INVESTING/FINANCING ACTIVITIES		
Net gain on sale of property, plant and equipment	54	(599)
Net interest received	(1,121)	(1,574)
Distributions to the racing codes	148,200	137,563
Distributions to the racing industry (TRLRP)	2,747	-
Gaming distributions for racing industry costs	8,178	7,033
Gaming distribution to external bodies	3,390	3,173
TOTAL ITEMS CLASSIFIED AS INVESTING/FINANCING ACTIVITIES	161,448	145,596
MOVEMENT IN CURRENT ASSETS		
Decrease in trade and other receivables	(2,771)	(2,013)
Increase / (decrease) in other assets	6,356	(41)
TOTAL MOVEMENT IN CURRENT ASSETS	3,585	(2,054)
MOVEMENT IN LIABILITIES		
(Decrease) / increase in trade and other payables	(5,123)	3,021
Increase / (decrease) in customer betting account deposits	1,413	(258)
Increase / (decrease) in other financial liabilities	543	(599)
Increase in taxes payable	415	418
Decrease / (increase) in provisions	(1,514)	599
TOTAL MOVEMENT IN LIABILITIES	(4,266)	3,181
NET CASH PROVIDED BY OPERATING ACTIVITIES	164,802	159,316

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

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

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

Group structure: provides information about how the key numbers of NZRB are reported internally and explains aspects of the wider group structure.

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

Operating assets and liabilities: provides information about the assets used to generate NZRB's key numbers and the liabilities incurred as a result.

Risk management: discusses NZRB's exposure to various financial risks, explains how these affect the financial position and performance and what NZRB does to manage these risks. This section also provides information on any items that are not recognised in the financial statements but could potentially have an impact on NZRB's financial position and performance.

INDEX

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

Note 1 - Basis of preparation	43
-------------------------------	----

What is the structure of the Group and how were results reported internally?

Note 2 - Group entities	46
Note 3 - Underlying operating profit reconciliation	47
Note 4 - Operating segments	49

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

Note 5 - Distributions	50
------------------------	----

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

Note 6 - Revenue	52
Note 7 - Other revenue	53

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

Note 8 - Turnover related expenses	54
Note 9 - Operating expenses	54
Note 10 - Transactions with related parties	56

Operating assets and liabilities - What was the working capital position of NZRB?

Note 11 - Cash and cash equivalents	57
Note 12 - Trade and other receivables	57
Note 13 - Other financial assets	58
Note 14 - Other assets	59
Note 15 - Trade and other payables	59
Note 16 - Customer betting account deposits and vouchers	59

Operating assets and liabilities - What property, plant, equipment and intangibles were used by NZRB for its operations?

Note 17 - Property, plant and equipment	60
Note 18 - Intangible assets	62
Note 19 - Non-current assets and liabilities held for sale	62

Operating assets and liabilities - Other liabilities incurred by NZRB

Note 20 - Borrowings	63
Note 21 - Other financial liabilities	63
Note 22 - Provisions	64

Risk management

Note 23 - Categories of financial instruments	65
Note 24 - Risk management	66
Note 25 - Commitments	69
Note 26 - Contingent liabilities	70
Note 27 - Subsequent events	70

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

This section sets out the accounting policies that relate to the financial statements as a whole. Where an accounting policy is specific to one note, the policy is described in the note to which it relates.

1. BASIS OF PREPARATION

REPORTING ENTITY AND STATUTORY BASE

The New Zealand Racing Board (NZRB) is a statutory body established by the Racing Act 2003, which requires that NZRB prepare financial statements that comply with generally accepted accounting practice (GAAP) in New Zealand (as defined under the Financial Reporting Act 2013).

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, the Racing Integrity Unit (RIU) and the Betting Accounts and Betting Vouchers Trust (collectively, the Group).

STATEMENT OF COMPLIANCE

These consolidated financial statements comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), other New Zealand accounting standards and authoritative notices that are applicable to entities that apply NZ IFRS as appropriate for Tier 1 for-profit entities, which has been opted into by NZRB.

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 NZRB's functional currency.

CHANGES IN ACCOUNTING POLICIES

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

NEW STANDARDS AND INTERPRETATIONS ISSUED

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

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

- NZ IFRS 9 *Financial instruments* was issued in September 2014 as a complete version of the standard which relates to the three aspects of financial instruments accounting: classification and measurement, impairment and hedge accounting. NZ IFRS 9 is effective for reporting periods beginning on or after 1 January 2018 and NZRB will adopt the new standard from 1 August 2018.

Classification and measurement

NZ IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on NZRB's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the NZ IAS 39 requirements. It is not expected that NZRB will make significant changes in this area; additional new disclosures will be required under this standard which broadly covers NZRB's business model and strategy in managing its financial assets and how these impact the categorisation of these instruments for financial reporting purposes.

Impairment

NZ IFRS 9 introduces a new expected credit loss (ECL) model for assessing and measuring impairment of NZRB's debt security financial assets (e.g. trade receivables and industry loans) measured at amortised cost, either on a 12-month or lifetime basis. The ECL model may result in earlier recognition of impairment losses based on a forward-looking analysis of the counterparty's credit standing whereas the current incurred loss model is based on the existence of an objective past evidence of impairment. NZRB expects to apply the simplified approach and record lifetime expected losses on all trade receivables measured at amortised cost; with respect to its industry loans, loan commitments and financial guarantees, NZRB expects to apply the general approach by applying the ECL on various stages depending on the degree of the counterparty's credit deterioration. NZRB will finalise its assessment for ECL model in time for adoption in 2018/19.

Hedge accounting

NZ IFRS 9 does not change the general principles of how an entity accounts for effective hedges; as such, NZRB does not expect a significant impact as a result of applying NZ IFRS 9 for its hedges currently in place. NZRB believes that all existing hedge relationships that are currently designated in effective hedging relationships will still qualify for hedge accounting under NZ IFRS 9. Additional note disclosures will be required including NZRB's risk management strategy affecting the hedged exposure and the hedging instruments as well as the assessment of hedge effectiveness. This will more clearly reflect the link between NZRB's hedging activities to its overall risk management objective and strategies.

- 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. The Group has undertaken an assessment to measure the impact of the new standard (from a recognition, disclosure and presentation perspective) and will complete a full impact assessment in time for the adoption in the 2018/19 year. Additional disclosure notes will be required to report on the balances of receivables, contract assets and liabilities from contracts with customers. NZRB will apply this standard from 1 August 2018.

ANNUAL REPORT 2018

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JULY 2018 (CONT'D)

- NZ IFRS 16 *Leases* replaces NZ IAS 17 *Leases*. IFRS 16 eliminates the classification of leases as either operating or finance for lessees and, instead, introduces a single lessee accounting model. This model requires lessees to account for all of their leases in a manner similar to how finance leases were treated applying NZ IAS 17. This will result in:
 - (a) the recognition of a lease asset and lease liability in the statement of financial position;
 - (b) the recognition of depreciation of lease assets and financing costs on the lease liability in profit or loss; and
 - (c) presentation of the amount of cash paid for the principal portion of the lease liability within financing activities.

Lessor accounting is broadly unchanged compared to NZ IAS 17. NZRB's assessment of NZ IFRS 16's full impact is currently underway; it is expected that the impact in terms of reporting and operational requirements will be significant. NZ IFRS 16 is effective for reporting periods beginning on or after 1 January 2019 and NZRB will adopt this standard from 1 August 2019 using the modified-retrospective method.

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, except the ones identified below. 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.

TAXES, DUTIES AND LEVIES

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 0.52 cents in the dollar on Gross Betting Revenue and 1.30 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 on certain income earned overseas.

ANNUAL REPORT 2018

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JULY 2018 (CONT'D)

GROUP STRUCTURE

This section explains aspects of the wider group structure and how changes may have affected the financial position and performance of the Group and provides information about how the key numbers of the business are reported internally.

What is the structure of the group?

2. GROUP ENTITIES

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by NZRB as at 31 July 2018 and the results of the operations of such entities for the year. NZRB and such entities are together referred to in these financial statements as NZRB or the Group.

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.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets. Non-controlling interests are allocated their share of net profit in the statement of profit or loss and other comprehensive income and are presented within equity in the consolidated statement of financial position, separately from the equity attributable to NZRB; transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions in the equity holders' capacity as owners.

INTEREST IN SUBSIDIARIES

The Group includes the following subsidiary and controlled entity:

	Principal place of business	Reporting date	Interest 2018 (%)	Interest 2017 (%)
Betting Accounts and Vouchers Trust	New Zealand	31 July	100	100
Racing Integrity Unit Limited	New Zealand	31 July	25	25

CONSOLIDATION OF BETTING ACCOUNTS AND VOUCHERS TRUST

The Betting Accounts and Vouchers Trust (the Trust) was established by NZRB in 2004 to set aside funds for the purpose of covering amounts owed to customers on TAB betting accounts and unpresented vouchers. NZRB is the Trustee of the Trust. The deposits and cash balance held in trust are not available for use by NZRB in the ordinary course of business, up to the value of the betting account deposits and vouchers liability.

NZRB controls the Trust which is therefore consolidated with these financial statements. The carrying amounts of the assets and liabilities in the consolidated financial statements reflect the restrictions that apply.

CONSOLIDATION OF RACING INTEGRITY UNIT

The Racing Integrity Unit Limited (RIU) manages integrity services to the racing industry and is responsible for investigating and prosecuting breaches of the Rules of Racing. NZRB has consolidated the RIU. NZRB provides all the funding income and financial support for the RIU company. As such, despite only holding a 25% interest, NZRB is deemed to control RIU and consequently consolidates the same. The remaining 75% interest in RIU (non-controlling interest) is owned equally by the three racing codes.

ANNUAL REPORT 2018

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JULY 2018 (CONT'D)

How are the results of NZRB reported internally?

3. UNDERLYING OPERATING PROFIT RECONCILIATION

This note reconciles NZRB's GAAP based reported net profit to its underlying operating profit by separately showing the financial impact of the strategic initiatives and other items for each year reported in order to better demonstrate NZRB's operating performance in a meaningful and transparent manner to users of these financial statements including those who use non-GAAP financial information.

The **strategic initiatives** undertaken in 2018 included:

- **Fixed Odds Betting** - This initiative involves the development of a new fixed odds betting (FOB) platform intended to deliver and improve the betting experience for NZRB customers. The development phase was completed in the 2017/18 year and testing phase is currently underway for implementation in the 2018/19 year.
- **Racefields legislation** - includes recommendations to the Government to introduce an offshore bookmaker fee for bets taken by offshore bookmakers from people in New Zealand and bets taken on domestic racing and sport. Following the release of the Messara Report, the current Bill was halted and the Minister has indicated that he now intends to include Racefields as part of a broader amendment to the Racing Act; NZRB continues to be committed to supporting the drafting of a new legislation.
- **Customer & Channels Programme** - Its objective is to grow customer numbers, deliver world class channels and lower the cost to deliver services to our customers. Positive results have been realised from this initiative during the 2017/18 year.
- **Optimise the Calendar** - is set up to develop a racing calendar that promotes higher returns to the industry, as well as future-proof the venue footprint to enable more targeted, strategic investment. Positive results arising from the approved changes to the Racing Calendar have been incorporated in the 2017/2018 season.

The **other costs** incurred relate to the Anti-Money Laundering and Countering Financing of Terrorism Act 2009 (AML) legislation which involves implementing new and upgrading existing systems and operational environment (i.e. customer due diligence, ID verification, systems controls changes, etc). The project is well underway and is expected to be in place by August 2019.

The **Gain on sale of buildings** reported in the 2017 year relates to the gain realised on the sale of the Hamilton building.

2018	Note	Reported Net Profit \$000	Strategic Initiatives \$000	Other Costs \$000	Underlying Operating Profit \$000
REVENUE					
Net betting revenue	6b	287,572	3,618	-	283,954
Net gaming revenue	6c	26,970	-	-	26,970
NZ racing revenue shown overseas	6d	20,529	693	-	19,836
Other revenue	7	24,178	-	-	24,178
TOTAL REVENUE		359,249	4,311	-	354,938
TURNOVER RELATED EXPENSES	8	68,933	(3,439)		65,494
OPERATING EXPENSES					
Broadcasting expenses		9,495	-	-	9,495
Communication and technology expenses	9a	20,836	(1,709)	-	19,127
Depreciation and amortisation		19,800	(4,008)	-	15,792
Foreign exchange (gain)/loss		29	-	-	29
Premises and equipment expenses	9b	14,982	(316)	-	14,666
Staff expenses	9c	62,758	(2,754)	(638)	59,366
Other expenses	9d	16,475	(389)	(59)	16,027
TOTAL OPERATING EXPENSES		144,375	(9,176)	(697)	134,502
TOTAL EXPENSES		213,308	(12,615)	(697)	199,996
UNDERLYING OPERATING PROFIT BEFORE DISTRIBUTIONS		145,941	(8,304)	(697)	154,942

ANNUAL REPORT 2018

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JULY 2018 (CONT'D)

2017	Note	Reported Net Profit \$000	Strategic Initiatives \$000	Gain on Sale of Buildings \$000	Underlying Operating Profit \$000
REVENUE					
Net betting revenue	6b	277,490	-	-	277,490
Net gaming revenue	6c	24,835	-	-	24,835
NZ racing revenue shown overseas	6d	20,616	-	-	20,616
Other revenue	7	25,756	-	611	25,145
TOTAL REVENUE		348,697	-	611	348,086
TURNOVER RELATED EXPENSES					
	8	68,401	(1,968)	-	66,433
OPERATING EXPENSES					
Broadcasting expenses		9,727	-	-	9,727
Communication and technology expenses		17,631	6	-	17,637
Depreciation and amortisation		16,206	(426)	-	15,780
Foreign exchange (gain)/loss		(29)	-	-	(29)
Premises and equipment expenses	9b	14,924	-	-	14,924
Staff expenses	9c	63,689	(1,269)	-	62,420
Other expenses	9d	14,132	(938)	-	13,194
TOTAL OPERATING EXPENSES		136,280	(2,627)	-	133,653
TOTAL EXPENSES		204,681	(4,595)	-	200,086
UNDERLYING OPERATING PROFIT BEFORE DISTRIBUTIONS		144,016	(4,595)	611	148,000



ANNUAL REPORT 2018

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JULY 2018 (CONT'D)

4. OPERATING SEGMENTS

NZRB reports its operating segments on the basis of its distinct business operations in which specific strategies and decisions are made based on the nature, type of products and other factors (e.g. regulatory requirements) appropriate to each. These distinct business operations include the following:

- **Gaming operations** - Operations relating to the provision of gaming activities.

- **Betting operations** - Operations relating to providing totalisator and fixed odds betting for racing and sports. Betting operations include broadcasting, racing services provided to the racing codes, retail and head office functions of the NZRB. This segment includes all other NZRB functions and costs other than those relating to gaming. The Betting Account and Betting Vouchers Trust operations, which are fully eliminated on consolidation, are included within the betting operations.

In addition to the two operating segments, the RIU operations, including the impact of consolidation adjustments, are presented separately under 'RIU'. The RIU funding disclosed in Distributions is intended to cover operating and capital expenditure. Consequently, the net profit after distributions represents the net of funding and operating and capital expenditure.

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 segment.

NZRB's Chief Executive 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 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.

The following is an analysis of the Group's profit, assets and liabilities by reportable segments.

	Betting	Gaming	RIU	Total
	\$000	\$000	\$000	\$000
2018				
NET PROFIT/(LOSS) BEFORE DISTRIBUTIONS	134,382	17,847	(6,288)	145,941
Less distributions	(150,800)	(14,591)	6,280	(159,111)
Less provision for undistributed gaming net profit	-	(3,256)	-	(3,256)
NET PROFIT AFTER DISTRIBUTIONS	(16,418)	-	(8)	(16,426)
KEY SEGMENT INFORMATION				
Total turnover	2,262,382	476,040	-	2,738,422
Depreciation and amortisation	(17,568)	(2,164)	(68)	(19,800)
Additions to non-current assets	15,833	1,506	142	17,481
Total assets	120,247	11,457	(1,635)	130,069
Total liabilities	66,504	11,457	(1,349)	76,612

	Betting	Gaming	RIU	Total
	\$000	\$000	\$000	\$000
2017				
NET PROFIT/(LOSS) BEFORE DISTRIBUTIONS	133,826	16,241	(6,051)	144,016
Less distributions	(137,563)	(14,673)	6,034	(146,202)
Less provision for undistributed gaming net profit	-	(1,568)	-	(1,568)
NET LOSS AFTER DISTRIBUTIONS	(3,737)	-	(17)	(3,754)
KEY SEGMENT INFORMATION				
Total turnover	2,244,601	436,253	-	2,680,854
Depreciation and amortisation	(14,146)	(2,003)	(57)	(16,206)
Additions to non-current assets	10,685	1,447	200	12,332
Total assets	131,542	9,982	(4,852)	136,672
Total liabilities	60,781	9,982	(3,399)	67,364

KEY NUMBERS

NZRB typically distributes most of its net profit to the racing industry and sporting community organisations. This section focuses on the net profit result of NZRB that enabled this return to its stakeholders. Starting with a breakdown of total distributions, on the following pages you will find a breakdown of individual line items in the Statements of Profit or Loss and Other Comprehensive Income and disclosures relating to the accounting policies, judgements and estimates relevant to understanding these line items.

What was the return to NZRB's stakeholders?

5. DISTRIBUTIONS

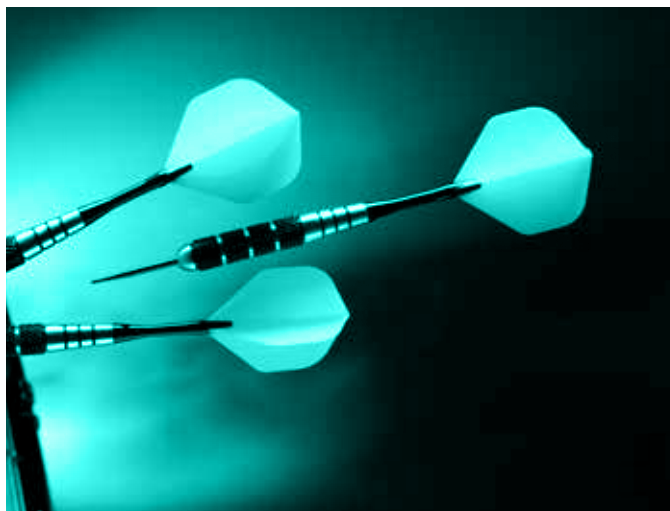
NZRB's net profit from its betting operations is distributed to the racing industry (directly through the racing codes) in accordance with the Racing Act 2003.

Distribution payments include a funding component which is made directly to the racing codes, based on funding agreements with the codes. Any additional distributions become payable upon approval by the NZRB Board.

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 considered to be for racing authorised purposes. All distributions from gaming net profit are approved by NZRB's Net Proceeds Committee (NPC) under a grants policy that ensures that the authorised purpose is consistent with the purpose specified in NZRB's Class 4 gaming licence. The application of funds under racing authorised purpose include Judicial Control Authority (JCA), RIU, Racing Laboratory Services, The Races Limited Partnership (TRLP) and costs incurred by NZRB in relation to the publication of race form, racing calendar, and (until the 2016/17 year) Event Marketing & Logistics operations. During the year, the NPC approved further initiatives under the racing authorised purpose, which included infrastructure development, stakes enhancements, and youth recruitment and retention.

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.



ANNUAL REPORT 2018

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JULY 2018 (CONT'D)

DISTRIBUTIONS (CONT'D)

31 JULY 2018

DISTRIBUTIONS TO THE RACING INDUSTRY

	Betting	Gaming	Undistributed Gaming net profit from previous year	TOTAL
	\$000	\$000	\$000	\$000
Code funding	148,200	-	-	148,200
RIU	-	5,757	523	6,280
Racing Laboratory Services	-	1,574	304	1,878
JCA	-	1,035	345	1,380
The Races Limited Partnership *	2,600	909	-	3,509
Other distributions to racing industry				
Race form publications	-	1,137	147	1,284
Infrastructure development	-	480	107	587
Stakes enhancement	-	214	111	325
Youth recruitment & retention	-	105	21	126
TOTAL DISTRIBUTIONS TO RACING INDUSTRY	150,800	11,211	1,558	163,569
Distributions to sporting community organisations				
Sports authorised purposes (paid and payable)	-	3,380	10	3,390
TOTAL DISTRIBUTIONS TO SPORTING COMMUNITY ORGANISATIONS	-	3,380	10	3,390
Reversal of prior year provision for undistributed net profit	-	-	(1,568)	(1,568)
TOTAL DISTRIBUTIONS FROM NZRB PARENT	150,800	14,591	-	165,391
Distributions to RIU - eliminated on consolidation	-	(6,280)	-	(6,280)
TOTAL DISTRIBUTIONS FROM GROUP	150,800	8,311	-	159,111

* The Races Limited Partnership (TRLP), a limited liability partnership between NZTR, HRNZ and The Races Limited, has taken over the Event Marketing & Logistics activity from NZRB on 1 August 2017.

31 JULY 2017

DISTRIBUTIONS TO THE RACING INDUSTRY

	Betting	Gaming	Undistributed Gaming net profit from previous year	TOTAL
	\$000	\$000	\$000	\$000
Code funding *	137,563	-	-	137,563
RIU	-	5,780	254	6,034
Racing Laboratory Services	-	1,659	162	1,821
JCA	-	1,192	108	1,300
Other distributions to racing industry				
Event Marketing and Logistics	-	1,057	100	1,157
Race form publications	-	1,259	139	1,398
Infrastructure development	-	20	-	20
Stakes enhancement	-	536	-	536
Youth recruitment & retention	-	8	-	8
TOTAL DISTRIBUTIONS TO RACING INDUSTRY	137,563	11,511	763	149,837
Distributions to sporting community organisations				
Sports authorised purposes (paid and payable)	-	3,162	11	3,173
TOTAL DISTRIBUTIONS TO SPORTING COMMUNITY ORGANISATIONS	-	3,162	11	3,173
Reversal of prior year provision for undistributed net profit	-	-	(774)	(774)
TOTAL DISTRIBUTIONS FROM NZRB PARENT	137,563	14,673	-	152,236
Distributions to RIU - eliminated on consolidation	-	(6,034)	-	(6,034)
TOTAL DISTRIBUTIONS FROM GROUP	137,563	8,639	-	146,202

* The 2017 Code funding of \$137.6 million includes the additional distribution of \$1.4 million approved by the Board subsequent to prior year balance date. This additional distribution was made under the terms of the Code funding agreement and relates to the 2016 financial year.

ANNUAL REPORT 2018

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JULY 2018 (CONT'D)

Where did NZRB's income come from?

6. 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 recognised when the proceeds are received into the 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.

	2018 \$000	2017 \$000
6a. TURNOVER (including GST)		
Betting turnover - racing totalisator	951,164	1,000,797
Betting turnover - racing fixed odds	702,648	664,490
Total betting turnover - racing	1,653,812	1,665,287
Betting turnover - sports fixed odds	608,570	579,314
Total betting turnover - sports	608,570	579,314
Total betting turnover	2,262,382	2,244,601
Gaming turnover	476,040	436,253
TOTAL BETTING AND GAMING TURNOVER	2,738,422	2,680,854
6b. NET BETTING REVENUE		
Total betting turnover	2,262,382	2,244,601
Less: dividends payable	(1,912,514)	(1,906,866)
Gross betting revenue	349,868	337,735
Betting duty	(13,736)	(13,188)
GST	(46,751)	(45,318)
Problem gambling levy	(1,809)	(1,739)
NET BETTING REVENUE	287,572	277,490
6c. NET GAMING REVENUE		
Gaming turnover	476,041	436,253
Less: dividends paid	(434,964)	(398,428)
Gross gaming revenue	41,077	37,825
Gaming machine duty	(8,215)	(7,565)
GST	(5,358)	(4,933)
Problem gambling levy	(534)	(492)
NET GAMING REVENUE	26,970	24,835

6d. NZ RACING SHOWN OVERSEAS

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. Included within NZ racing shown overseas was \$0.4 million of strategic initiative related revenue (2017: nil). Refer to note 3.

ANNUAL REPORT 2018

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JULY 2018 (CONT'D)

7. OTHER REVENUE

NZRB's other revenue comprises 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 the title is transferred).

Interest income is earned on cash and cash equivalents, 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 which is recognised as revenue following a completed customer deposit transaction.

Racing services income represents income earned by NZRB from providing on-course raceday 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 Radio Trackside and is subject to levies under the Broadcasting Act 1989; this is recognised when the advertising service is rendered.

All other revenue comprises mainly of telecommunications, rent and publications revenue. It is measured at the fair value of the consideration given and is recognised when risks and rewards transfer from NZRB, except for operating rent income which is recognised on a straight-line basis over the lease term.

	2018 \$000	2017 \$000
Interest	1,366	1,911
Merchant fee	4,520	3,847
Racing services	13,747	13,468
Revenue from broadcasting within New Zealand	839	726
(Loss) / gain on disposal of property, plant and equipment and intangibles	(54)	599
Other revenue*	3,760	5,205
TOTAL OTHER REVENUE	24,178	25,756

* The 2017 other revenue included recoveries from the racing clubs for the EML operation which was transferred to TRLP on 1 August 2017.



ANNUAL REPORT 2018

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JULY 2018 (CONT'D)

What costs were incurred in deriving this income?

8. 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 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 each individual import race.

	2018 \$000	2017 \$000
Advertising and promotions *	8,597	8,156
Commingling	1,701	1,484
National sporting organisations	10,227	9,267
Overseas racing rights	27,600	28,055
Racing form publications **	2,273	2,996
Less race form publications recovered from gaming	(1,284)	(1,398)
Retail fees	15,811	16,127
Other turnover related expenses	4,008	3,714
TOTAL TURNOVER RELATED EXPENSES	68,933	68,401

* Included within the 2017 advertising and promotions expenses was \$2.9 million in relation to the Customer & Channels strategic initiative (2017: \$2.0 million). Refer to note 3.

** Race form publications costs recovered from gaming relates to the application of funds from gaming to reimburse certain race form publication expenses under the NZRB's Racing Authorised Purpose, defined under the NZRB Class 4 Licence. Refer to note 5.

9. OPERATING EXPENSES

9a. COMMUNICATION AND TECHNOLOGY EXPENSES

Communications and technology expenses include infrastructure as a service (IaaS) and IT managed services (ITMS) charges of \$9.7 million (2017: \$8.6 million) which support NZRB's technology operating requirements. Included within communication and technology costs was \$1.7 million in relation to the Customer & Channel and FOB strategic initiatives (2017: nil). Refer to note 3.

9b. PREMISES AND EQUIPMENT EXPENSES

	2018 \$000	2017 \$000
Rent	7,504	7,600
Repairs and maintenance	2,752	2,348
Other premises and equipment expenses	4,726	4,976
TOTAL PREMISES AND EQUIPMENT EXPENSES	14,982	14,924

Included within the premises and equipment expenses was \$0.3 million in relation to the Customer & Channel strategic initiative (2017: nil). Refer to note 3.

9c. STAFF EXPENSES

	2018 \$000	2017 \$000
Salaries and wages (including contractors) *	57,537	59,207
Termination expenses	662	18
Other staff expenses	4,559	4,464
TOTAL STAFF EXPENSES	62,758	63,689

* Included within the total staff expenses was \$2.8 million of expenses relating to the strategic initiatives (2017: \$1.3 million). Refer to note 3.

ANNUAL REPORT 2018

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JULY 2018 (CONT'D)

9c. STAFF EXPENSES (CONT'D)

Compensation of key management personnel

NZRB considers key management personnel as the Board members, the Chief Executive and the leadership team of NZRB. The salaries and other short-term employee benefits and termination expenses are included within 'Staff expenses'. The Board members' fees are included within 'Other Expenses'. Refer to note 9d.

The remuneration of Board members and other key management personnel for NZRB during the year was as follows:

	2018 \$000	2017 \$000
Chief Executive and leadership team remuneration		
Salaries and other short-term employee benefits	2,845	2,743
Total Chief Executive and leadership team remuneration	2,845	2,743
Board members' fees	373	392
TOTAL KEY MANAGEMENT PERSONNEL	3,218	3,135

As at 31 July 2018, the leadership team of NZRB included eight members (2017: eight members).

9d. OTHER EXPENSES

	2018 \$000	2017 \$000
Auditors remuneration		
- Audit and review services ¹	190	168
- Taxation compliance services	12	11
- Treasury advisory services ²	24	3
- Other services ³	5	5
Board members ⁴	373	392
Consultancy ⁵	2,543	2,118
Impairment	100	287
Interest	245	338
Legal	282	669
Merchant	4,532	4,066
Printing and stationery	322	407
RIU swabbing	1,408	1,391
Travel and accommodation	3,053	3,179
Other operating expenses	3,386	2,255
Less EML costs recovered from gaming ⁶	-	(1,157)
TOTAL OTHER EXPENSES	16,475	14,132

¹ Audit and review services includes fees for the annual audit of the financial statements and review of the half-year financial statements.

² In 2018, this relates to advisory engagement associated with NZRB's borrowing and financing strategy.

³ Other services relates to the review of the gaming financial statements and forecast information for Class 4 relicensing purposes.

⁴ Board fees for the Group include fees paid to the Board members of RIU of \$60,000; (2017: \$60,000).

⁵ Consultancy expenses include \$0.4 million relating to the strategic initiatives (2017: \$0.9 million).

⁶ Event Marketing & Logistics (EML) costs recovered from gaming relates to the application of funds from gaming to reimburse certain EML expenses under the NZRB's Racing Authorised Purpose defined under NZRB Class 4 Licence. EML has been transferred to TRLP on 1 August 2017. Refer to note 5.

ANNUAL REPORT 2018

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JULY 2018 (CONT'D)

10. TRANSACTIONS WITH RELATED PARTIES

The related parties identified by NZRB include racing codes and racing clubs and entities in which key management personnel have an interest. To enable users of the financial statements to form a view about the effects of related party relationships on NZRB we have disclosed the material transactions with those related parties during the year and any balances outstanding at year-end.

TRANSACTIONS WITH RELATED PARTIES		Transaction value		Balance outstanding		Relationship with Key Management Personnel
ENTITY	TRANSACTION	2018 \$000	2017 \$000	2018 \$000	2017 \$000	
New Zealand Greyhound Association Incorporated	Distributions paid and payable	(24,826)	(22,263)	(330)	46	Mauro Barsi, a Board member of NZRB, was also a Board member (until February 2018) and Chief Executive Officer (from March 2018) of the New Zealand Greyhound Racing Association Incorporated.
	On-course venue services, trackside operations and radio services	2,994	3,018	-	53	
	Other services provided by NZRB	989	751	101	56	
	Other charges to / funding and transfers from NZRB	(101)	(50)	-	-	
Harness Racing New Zealand Incorporated	Distributions paid and payable	(44,196)	(40,827)	(695)	(1,876)	
	On-course venue services, trackside operations and radio services	4,077	4,012	-	-	
	Other services provided by NZRB	486	514	29	26	
New Zealand Thoroughbred Racing Incorporated	Distributions paid and payable	(80,009)	(75,037)	(359)	(468)	
	On-course venue services, trackside operations and radio services	6,654	6,438	466	435	
	Other services provided by NZRB	373	233	31	25	
	Other charges to / funding and transfers from NZRB	(124)	-	(122)	-	
Racing Integrity Unit Limited *	Funding	(6,280)	(6,033)	(602)	(578)	Glenda Hughes, Chair of NZRB, is also Chair of the Racing Integrity Unit Limited.
	Other services provided by NZRB	37	53	-	303	
Auckland Trotting Club	Retail services provided to NZRB	(983)	(1,064)	-	-	Rod Croon, a Board member of NZRB, is the Vice-president of Auckland Trotting Club.

* Refer to note 2 for further information regarding RIU. The balance outstanding with RIU relates to certain payments made to RIU employees, for which RIU will reimburse NZRB. All related party transactions between RIU and NZRB are eliminated on consolidation into NZRB Group.

** In addition to the above related party transactions, NZRB has provided a loan to Racing at Awapuni, Otaki and Trentham Combined Enterprise Incorporated (RACE Inc) and The Races Limited Partnership. Details relating to this loan is disclosed in note 13.

ANNUAL REPORT 2018

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JULY 2018 (CONT'D)

OPERATING ASSETS AND LIABILITIES

This section provides information about the assets used to generate the results of NZRB and the liabilities incurred as a result.

What was the working capital position of NZRB?

11. 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.

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.

	2018 \$000	2017 \$000
Cash and cash equivalents - NZ currency	15,533	22,671
Cash and cash equivalents - Betting Accounts and Vouchers Trust	1,007	5,009
Cash and cash equivalents - foreign currencies	1,161	1,337
TOTAL CASH AND CASH EQUIVALENTS	17,701	29,017

The Betting Accounts and Vouchers Trust account balance is not available for operational use by NZRB. RIU cash and cash equivalents balance at year end was \$0.3 million (2017: \$0.4 million).

12. 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; these cash bonds are included in trade and other payables.

Trade and other receivables are non-interest bearing and are generally on terms of 30 days or less; the carrying value of trade and other receivables approximates the fair value.

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 at an 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.

	2018 \$000	2017 \$000
Trade and other receivables	7,054	9,267
Provision for doubtful debts	(491)	(196)
TOTAL TRADE AND OTHER RECEIVABLES	6,563	9,071

As at 31 July 2018, \$0.7 million of the total trade and other receivables were past due but not impaired (2017: \$0.6 million).

ANNUAL REPORT 2018

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JULY 2018 (CONT'D)

13. 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. The term deposit and cash balance (refer to note 11) of \$26.0 million at 31 July 2018 (2017: \$27.0 million) is held to cover the total owed to customers of betting account deposits and vouchers liability of \$23.4 million (2017: \$24.8 million). Refer to note 16 for further information regarding NZRB's obligation for these amounts. The deposits and cash balance held in trust are not available for use by NZRB in the ordinary course of business, up to the value of the betting account deposits and vouchers liability (refer to note 2).

Subsequent to initial measurement, all debt instrument 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 profit or loss.

	2018 \$000	2017 \$000
Industry loans	4,004	2,927
Term deposits - Betting Accounts and Vouchers Trust	25,000	22,000
Term deposits	-	15,000
Other	85	76
TOTAL OTHER FINANCIAL ASSETS	29,089	40,003
Disclosed as:		
Current	27,756	37,000
Non-current	1,333	3,003
TOTAL OTHER FINANCIAL ASSETS	29,089	40,003

Industry Loans

Industry loans is comprised of a loan to RACE Inc of \$2.8 million and a loan to The Races Limited Partnership (TRLP) of \$1.2 million.

The outstanding balance of the Race Inc loan granted by NZRB is secured and is repayable in cash. NZRB has a second-ranking charge over the assets of RACE Inc and its subsidiary racing clubs. Bank of New Zealand (BNZ) has the first-ranking charge over these assets. NZRB provided a guarantee to BNZ to the value of \$5.3 million plus up to 2 years interest and the costs of collection (2017: \$5.3 million). Refer to note 26 for more information. New Zealand Thoroughbred Racing Incorporated guarantees to cover any shortfall from the amount guaranteed to BNZ and the loan from the NZRB.

NZRB granted an unsecured interest-free loan to TRLP repayable in full on 31 July 2020.

		Interest rate		Rate type
		2018	2017	
RACE Inc	February 2019, or earlier if called by NZRB	2.75%	2.75%	Variable
TRLP	July 2020	-	-	Interest free loan

ANNUAL REPORT 2018

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JULY 2018 (CONT'D)

14. OTHER ASSETS

Other asset balances include prepaid transition costs associated with the Optimus Programme of \$1.7 million (2017: \$2.6 million) which are recognised as expense over the term of agreement of 5 years; the prepayments made relating to the acquisition of new OB vans and trailer under the Vision Capture project (\$4.4 million) which will be reclassified to property, plant & equipment when control over these assets is transferred to NZRB in August 2018; and prepaid licence support costs related to the development and subsequent operations of NZRB's new fixed odds betting platform (\$2.2 million).

Disclosed as:	2018 \$000	2017 \$000
Other current assets	8,707	1,498
Other non-current assets	1,732	2,596
TOTAL OTHER ASSETS	10,439	4,094

15. 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. The carrying value of trade and other payables approximates the fair value.

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.

	2018 \$000	2017 \$000
Accruals	8,771	6,416
Amounts payable to Board members	18	34
Employee entitlements	5,046	4,393
Racing code distributions payable	1,259	2,298
Trade payables	13,544	13,603
TOTAL TRADE AND OTHER PAYABLES	28,638	26,744

16. 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.

The balance of the customer betting accounts deposit and vouchers liabilities as at 31 July 2018 was \$23.4 million (2017: \$24.8 million). Short-term deposits and cash totalling \$26.0 million (2017: \$27.0 million) is held in trust to cover this liability in the Betting Accounts and Vouchers Trust.

ANNUAL REPORT 2018

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JULY 2018 (CONT'D)

What property, plant, equipment and intangibles were used by NZRB for its operations?

17. 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 (reviewed annually) to its estimated residual value. Depreciation is recognised within 'Depreciation and amortisation' 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 assets are depreciated over the lease term of 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 profit or loss.



ANNUAL REPORT 2018

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JULY 2018 (CONT'D)

17. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

GROUP	Land and buildings	Leasehold improvements	Computer hardware	Motor vehicles	Operations and trackside equipment	Gaming machines	Other	Work in progress	Total property, plant and equipment
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
AS AT 1 AUGUST 2016									
At cost	1,546	34,685	49,023	10,050	42,859	7,870	6,598	4,474	157,105
Accumulated depreciation	(747)	(22,333)	(40,668)	(6,064)	(34,246)	(4,000)	(4,189)	-	(112,247)
CARRYING AMOUNT	799	12,352	8,355	3,986	8,613	3,870	2,409	4,474	44,858
Additions	3	1,983	403	516	253	690	27	4,796	8,671
Disposals	(739)	(23)	(35)	(130)	-	(34)	-	-	(961)
Net transfers between asset classes	(39)	39	-	39	(39)	6	-	(548)	(542)
Transferred from work in progress	13	1,532	549	208	167	758	382	(3,611)	(2)
Transferred to assets held for sale	-	-	(1)	(1,004)	(215)	-	-	-	(1,220)
Depreciation for the year	(24)	(2,903)	(3,516)	(726)	(2,003)	(1,509)	(573)	-	(11,254)
Impairment losses	(13)	(191)	(12)	(36)	(8)	(5)	(1)	-	(266)
CARRYING AMOUNT AT 31 JULY 2017	-	12,789	5,743	2,853	6,768	3,776	2,244	5,111	39,284
At cost	-	36,903	48,282	8,302	42,030	8,756	6,527	5,111	155,911
Accumulated depreciation	-	(24,114)	(42,539)	(5,449)	(35,262)	(4,980)	(4,283)	-	(116,627)
CARRYING AMOUNT	-	12,789	5,743	2,853	6,768	3,776	2,244	5,111	39,284
Additions	-	3,038	622	817	1,572	465	298	2,000	8,812
Disposals	-	(62)	-	(378)	-	(12)	(4)	-	(456)
Net transfers between asset classes	-	-	-	-	-	(20)	-	-	(20)
Transferred from work in progress	-	1,331	709	958	1,656	270	46	(4,970)	-
Depreciation for the year	-	(3,185)	(3,462)	(574)	(1,683)	(1,558)	(564)	-	(11,026)
Impairment losses	-	(50)	(8)	(27)	(12)	-	-	-	(97)
CARRYING AMOUNT AT 31 JULY 2018	-	13,861	3,604	3,649	8,301	2,921	2,020	2,141	36,497
At cost	-	38,568	47,147	8,572	44,488	9,369	6,824	2,141	157,109
Accumulated depreciation	-	(24,707)	(43,543)	(4,923)	(36,187)	(6,448)	(4,804)	-	(120,612)
CARRYING AMOUNT	-	13,861	3,604	3,649	8,301	2,921	2,020	2,141	36,497

At 31 July 2018 the contractual commitment for acquisition of property, plant and equipment for the Group was \$2.1 million (2017: \$1.1 million).

The NZ Live finance lease of \$2.3 million as at 31 July 2018 (2017: \$2.7 million) is included in Operations and Trackside Equipment.

There are no restrictions on property, plant and equipment assets or any assets pledged as securities for liabilities.

ANNUAL REPORT 2018

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JULY 2018 (CONT'D)

18. 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 and an appropriate portion of relevant overheads incurred to actually design, develop, test and implement the asset. Other costs incurred pre-development and post-implementation are recognised as an expense when incurred.

Amortisation is charged on a straight-line basis over the estimated useful lives of the asset and is recognised within 'Depreciation and amortisation' in the profit or loss. The estimated useful life and amortisation method is reviewed at the end of each annual reporting period.

Intangible assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount, which is the higher of the fair value less cost of disposal and value in use. Impairment assessment is done on the lowest level in which assets are separately identifiable in terms of their respective cash flow (cash generating unit). Impairment is reviewed at least at the end of each reporting period.

ESTIMATED USEFUL LIFE

Software	3-7 years
Broadcasting licenses	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.

	Software	Broadcasting licences	Other intangible assets	Work in progress	Total intangible assets
	\$000	\$000	\$000	\$000	\$000
AS AT 1 AUGUST 2016					
At cost	64,579	3,391	643	895	69,508
Accumulated amortisation	(52,526)	(1,957)	(294)	-	(54,777)
CARRYING AMOUNT	12,053	1,434	349	895	14,731
Additions	1,915	-	179	1,567	3,661
Net transfers between asset classes	(6)	-	-	548	542
Transferred from work in progress	981	-	504	(1,483)	2
Amortisation for the year	(4,636)	(123)	(193)	-	(4,952)
Impairment losses	(1)	-	-	-	(1)
CARRYING AMOUNT AT 31 JULY 2017	10,306	1,311	839	1,527	13,983
At cost	61,331	2,925	1,326	1,527	67,109
Accumulated amortisation	(51,025)	(1,614)	(487)	-	(53,126)
CARRYING AMOUNT	10,306	1,311	839	1,527	13,983
Additions	5,135	-	-	19,072	24,207
Net transfers between asset classes	20	-	-	-	20
Transferred from work in progress	743	-	-	(743)	-
Amortisation for the year	(8,708)	(125)	(369)	428	(8,774)
Impairment losses	(3)	-	-	-	(3)
CARRYING AMOUNT AT 31 JULY 2018	7,493	1,186	470	20,284	29,433
At cost	67,230	2,925	1,326	20,284	91,765
Accumulated amortisation	(59,737)	(1,739)	(856)	-	(62,332)
CARRYING AMOUNT	7,493	1,186	470	20,284	29,433

At 31 July 2018, work in progress relates mainly to software (2017: software).

At 31 July 2018 the contractual commitment for acquisition of software and other intangibles was \$5.5 million (2017: \$14.1 million).

There are no restrictions on intangible assets or any assets pledged as securities for liabilities.

During the year \$0.1 million of interest costs were capitalised as part of software WIP (2017: nil).

19. NON-CURRENT ASSETS AND LIABILITIES 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.

As at 31 July 2017, the non-current assets and liabilities classified as held for sale relate to the transfer of the Events Marketing & Logistics (EML) operation to The Races Limited Partnership, which is a limited liability partnership between Harness Racing New Zealand, New Zealand Thoroughbred Racing and The Races Management Limited. The effective date of transfer was 1 August 2017.

ANNUAL REPORT 2018

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JULY 2018 (CONT'D)

Other liabilities incurred by NZRB

20. BORROWINGS

On 29 August 2017 NZRB entered into a unsecured revolving credit facility of \$25 million for an initial term of 3 years maturing in August 2020. Interest is payable based on prevailing market rate plus a margin; there are no guarantees or covenants attached to this facility.

As at 31 July 2018, total drawdown from the facility is \$10 million; these have been classified as non-current liabilities as NZRB has the contractual right to refinance these drawings, effectively rolling them over, within the facility's 3 year term consistent with management's expectations and strategy.

There have been no other movements in respect of NZRB's borrowings during the year.

21. 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. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term financial liabilities. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

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. In the 2017/18 year NZRB released \$1.8 million of aged dividends unlikely to be settled.

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 to be 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 at 31 July 2018.

	2018 \$000	2017 \$000
Jackpot retentions	482	373
Finance lease	2,711	3,029
Unclaimed dividends	736	2,946
Unresulted turnover	1,956	1,595
TOTAL OTHER FINANCIAL LIABILITIES	5,885	7,943
Disclosed as:		
Current	3,525	5,232
Non-current	2,360	2,711
TOTAL OTHER FINANCIAL LIABILITIES	5,885	7,943

Finance Lease

On 1 September 2014, NZRB recognised a finance lease asset and corresponding liability for a value of \$3.8 million, payable over 10 years. As at 31 July 2018, the carrying amount of the liability is \$2.7 million (2017: \$3.0 million). The finance lease relates to broadcasting equipment used by NZRB in relation to the 10 year broadcast service contract between NZRB and NZ Live.

ANNUAL REPORT 2018

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JULY 2018 (CONT'D)

FINANCE LEASE

Future minimum lease payments repayable as follows:

	2018 \$000	2017 \$000
Within one year	522	511
Later than one year but no later than five years	2,177	2,142
Later than five years	612	1,168
	3,311	3,821
Less future finance costs	(600)	(792)
PRESENT VALUE OF LEASE PAYMENTS	2,711	3,029

Present value of lease payments repayable as follows:

	2018 \$000	2017 \$000
Within one year	351	318
Later than one year but no later than five years	1,768	1,618
Later than five years	544	1,093
TOTAL VALUE OF LEASE PAYMENTS	2,663	3,029

22. 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.

	Make good \$000	Employee benefit \$000	Redundancy \$000	Undistributed gaming net profit \$000	Animal welfare \$000	Total provisions \$000
BALANCE AT 31 JULY 2017	1,015	691	-	1,568	150	3,424
Additional provisions	127	111	662	3,256	50	4,206
Provisions released	(77)	-	-	-	-	(77)
Amounts used	(133)	(131)	(662)	(1,568)	(121)	(2,615)
BALANCE AT 31 JULY 2018	932	671	-	3,256	79	4,938

Disclosed as:

	2018 \$000	2017 \$000
Current	4,075	2,372
Non-current	863	1,052
TOTAL PROVISIONS	4,938	3,424

Provision	Description of balance	Expected use
Make good	Restoring leased premises to their original condition at the end of the lease term. Costs are included within the carrying amount of Leasehold improvement assets. The actual payment dates and costs will be known once each lease reaches its expiry date and the extent of the corresponding make-good is ascertained.	Expiry dates up to 2024
Employee benefit	Long service leave entitlements and retirement gratuity entitlements on legacy employment contracts.	Expiry dates up to 2037
Undistributed gaming net profit	Class 4 gaming net profit must be distributed for authorised purposes and cannot be retained within the business. NZRB is obligated to distribute this provision within 90 days.	First quarter of 2019
Animal welfare	Animal welfare fund was setup following NZRB's commitment to promote and enhance the NZ Racing Industry. It accumulates at \$50,000 per annum. The Codes can apply to request funds for animal welfare initiatives.	On approval following request for funding

ANNUAL REPORT 2018

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JULY 2018 (CONT'D)

RISK MANAGEMENT

This section discusses NZRB's exposure to various financial risks, explains how these affect the financial position and performance of NZRB and what NZRB does to manage these risks. This section also provides information on any items that are not recognised in the financial statements but could potentially have an impact on NZRB's financial position and performance.

How did NZRB manage its financial risks?

23. CATEGORIES OF FINANCIAL INSTRUMENTS

NZRB classifies its financial assets in the following categories: held to maturity, loans and receivables and fair value through profit or loss (FVTPL). 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 LIABILITIES AT AMORTISED COST

NZRB classifies its financial liabilities under 'financial liability measured at amortised cost' using the effective interest method.

FINANCIAL ASSETS/LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Derivative assets/liabilities are categorised as 'financial asset/liability at fair value through profit or loss'. Changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recorded in other comprehensive income as part of the hedging reserve. When the derivative is no longer on effective hedge or is sold or cancelled the cumulative gain or loss recognised to date on the derivative is recognised in profit or loss.

ASSETS

Cash and cash equivalents
Derivative assets
Trade and other receivables
Other financial assets

TOTAL FINANCIAL ASSETS

Total non-financial assets

TOTAL ASSETS

2018				2017		
Held-to-maturity	Loans and receivables	Fair value through Profit or Loss	Total	Held-to-maturity	Loans and receivables	Total
\$000	\$000	\$000	\$000	\$000	\$000	\$000
-	17,701	-	17,701	-	29,017	29,017
-	-	347	347	-	-	-
-	6,563	-	6,563	-	9,071	9,071
25,000	4,089	-	29,089	37,000	3,003	40,003
25,000	28,353	347	53,700	37,000	41,091	78,091
			76369			58,581
			130,069			136,672

LIABILITIES

Trade and other payables
Customer betting deposits and vouchers
Unclaimed dividends and unresulted turnover
Finance lease
Derivative liabilities
Liabilities held for sale
Borrowings
Other financial liabilities

TOTAL FINANCIAL LIABILITIES

Total non-financial liabilities

TOTAL LIABILITIES

2018			2017		
Financial Liabilities at amortised cost	Fair value through Profit or Loss	Total	Financial Liabilities at amortised cost	Fair value through Profit or Loss	Total
\$000	\$000	\$000	\$000	\$000	\$000
28,638	-	28,638	26,744	-	26,744
23,366	-	23,366	24,779	-	24,779
2,692	-	2,692	4,541	-	4,541
2,711	-	2,711	3,029	-	3,029
-	-	-	-	214	214
-	-	-	61	-	61
10,000	-	10,000	-	-	-
482	-	482	373	-	373
67,889	-	67,889	59,527	214	59,741
		8,723			7,623
		76,612			67,364

ANNUAL REPORT 2018

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JULY 2018 (CONT'D)

24. RISK MANAGEMENT

CAPITAL RISK MANAGEMENT

NZRB manages its capital considering stakeholders' interests, in particular distributions to the racing codes, the value of NZRB assets and funding/retentions required for approved initiatives.

NZRB's capital mainly comprises the general reserve, consisting of accumulated balances of prior years' retained surplus net of any losses, plus the current year net profit or loss and debt balances. NZRB's capital management policies are designed to ensure that agreed distributions to the racing codes are maintained while also allowing for approved initiatives to be funded.

FINANCIAL RISK MANAGEMENT

In the normal course of business, NZRB is exposed to a variety of financial risks. This section explains NZRB's exposure to financial risks, how these risks could affect the Group's financial performance and how they are managed. The Treasury function co-ordinates the investment of cash, surplus to current operational requirements, as well as monitoring and managing all financial risks relating to the operations of NZRB.

The use of financial instruments is governed by the Treasury policy approved by the Board of NZRB. The policy provides written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments. The policy also outlines the principles for liquidity risk management. NZRB does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

NZRB uses recognised bookmaking tools and strategies to appropriately manage its betting risk and exposure. These include customer profiling, pricing management and using a spread of options to take a portfolio approach. In addition to this, the bookmakers are also able to lay off exposures with other betting agencies. NZRB is exposed to the following risks:

Risk	Exposure arising from	Monitoring	Management
24a. Liquidity risk	Liabilities and financial guarantees	Cash flow forecasting	Maintaining adequate cash reserves of liquid short-term deposits and sufficient access to committed facilities.
24b. Credit risk	Cash and cash equivalents, trade and other receivables, industry loans and financial guarantees, derivative contracts	Credit ratings of banks	Ongoing review of balances and contractual arrangements involving bank guarantees or cash bonds Ongoing review of business plans and financial viability of RACE Inc.
24c. Foreign exchange rate risk	Foreign currency denominated transactions, Foreign currency denominated monetary held assets and liabilities	Forecasting of foreign currency transactions	Use of foreign exchange hedges.
24d. Interest rate risk	Cash and cash equivalents, short-term deposits and industry loans	Sensitivity analysis	Ongoing review by management.

24a. LIQUIDITY RISK MANAGEMENT

Liquidity risk is the risk that NZRB will encounter difficulties in meeting its payments obligations as they fall due.

As NZRB's revenues are principally transactions involving immediate cash receipts, short-term liquidity is covered by trading receipts and highly liquid bank deposits. NZRB manages longer dated liquidity risk by maintaining adequate cash reserves of liquid short-term deposits to satisfy anticipated capital expenditure and distribution requirements. In addition, NZRB manages this risk by ensuring sufficient access to committed facilities, continuous cash flow and working capital monitoring and maintaining prudent levels of short-term debt levels and maturities consistent with its written treasury policies. At balance date, NZRB had available (undrawn) \$15 million under its rolling credit bank facility (2017: nil), refer to note 20 for details.

NZRB's working capital (net current liabilities) position as at balance date is -\$2 million. The liquidity risk arising from this position is consistent with management expectations and is managed by NZRB in accordance with its Treasury policy. Specifically, the NZRB has undrawn banking facilities of \$15 million available to it; in addition, NZRB's current liabilities also have longer expected due dates than its current assets. As such, the NZRB is able to meet its obligations as they fall due through the generation of operating cash flows.

The following table (P67) outlines NZRB's remaining contractual maturities for its financial liabilities.

The table comprises the notional undiscounted cash flows for financial liabilities, including both interest and principal, based on the earliest date on which NZRB can be required to pay.

ANNUAL REPORT 2018

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JULY 2018 (CONT'D)

24. RISK MANAGEMENT (CONT'D)

24a. LIQUIDITY RISK MANAGEMENT (CONT'D)

FINANCIAL LIABILITIES	Carrying amount	On demand	Less than 3 months	3 months to 1 year	1-5 years	+5 years	Total contractual cash flows
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
2018							
Trade and other payables	28,638	28,638	-	-	-	-	28,638
Borrowings	10,000	-	5,082	5,086	-	-	10,168
Customer betting deposits and vouchers	23,366	23,366	-	-	-	-	23,366
Unclaimed dividends and unresulted turnover	2,692	736	1,956	-	-	-	2,692
Finance lease	2,711	-	130	392	2,177	612	3,311
Jackpot Retentions	482	-	482	-	-	-	482
Total notional cash outflows for recognised financial liabilities	67,889	52,740	7,650	5,478	2,177	612	68,657
Financial guarantees (maximum amount payable)							
Industry loan guarantees (note 26)	-	6,153	-	-	-	-	6,153
Other third party guarantees (note 26)	-	5,864	-	-	-	-	5,864
TOTAL NOTIONAL CASH OUTFLOWS	67,889	64,757	7,650	5,478	2,177	612	80,674

FINANCIAL LIABILITIES	Carrying amount	On demand	Less than 3 months	3 months to 1 year	1-5 years	+5 years	Total contractual cash flows
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
2017							
Trade and other payables	26,744	-	26,744	-	-	-	26,744
Customer betting deposits and vouchers	24,779	24,779	-	-	-	-	24,779
Unclaimed dividends and unresulted turnover	4,541	2,946	1,595	-	-	-	4,541
Finance lease	3,029	-	127	384	2,142	1,168	3,821
Derivative liabilities (FVTPL)	214	-	103	4	107	-	214
Liabilities held for sale	61	-	61	-	-	-	61
Other financial liabilities	373	-	373	-	-	-	373
Total notional cash outflows for recognised financial liabilities	59,741	27,725	29,003	388	2,249	1,168	60,533
Financial guarantees (maximum amount payable)							
Industry loan guarantees (note 26)	-	5,286	-	-	-	-	5,286
Other third party guarantees (note 26)	-	6,931	-	-	-	-	6,931
TOTAL NOTIONAL CASH OUTFLOWS	59,741	39,942	29,003	388	2,249	1,168	72,750

As at 31 July 2018, it is not expected that the financial guarantees will be called.

ANNUAL REPORT 2018

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JULY 2018 (CONT'D)

24. RISK MANAGEMENT - CONT'D

24b. CREDIT RISK

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to NZRB. The credit risk of the Parent is materially consistent with that of the Group.

The maximum exposure is equal to the carrying amount of the financial assets, as set out in note 23. All industry loans are fully secured. Refer to note 26 for further disclosure on the guarantees.

	2018 \$000	2017 \$000
Total financial assets (refer to note 23)	53,700	78,091
Unrecognised credit exposures:		
Industry loan guarantees	6,153	5,286
Other third party guarantees	5,864	6,931
Unrecognised credit exposures:	12,017	12,217
TOTAL CREDIT EXPOSURES	65,717	90,308

Concentrations of credit risk

NZRB is exposed to the following industry and geographical concentrations of credit risk for trade and other receivables:

	2018 %	2018 \$000	2017 %	2017 \$000
Trade and other receivables				
(Industry and geographical concentrations)				
Australian betting agencies	22.7%	1,598	25.5%	2,312
New Zealand retail TAB outlets	11.0%	778	34.4%	3,117
Bank and other banking institutions	10.7%	757	8.2%	749
Other New Zealand trade and other receivables	55.6%	3,921	31.9%	2,892
TOTAL TRADE AND OTHER RECEIVABLES	100.0%	7,054	100.0%	9,070

NZRB has a concentration of credit risk with its liquid investments and foreign exchange contracts, which are held with three New Zealand registered banks. All the New Zealand registered banks with which the liquid investments are held have a credit rating of A-/A or better.

To mitigate the credit risk of certain receivables, 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.

24c. FOREIGN CURRENCY EXCHANGE RATE RISK

NZRB is exposed to exchange rate fluctuations from certain foreign currency denominated transactions it undertakes. Exchange rate exposures may be managed within approved policy parameters which may include the use of forward foreign exchange contracts. As at balance date, NZRB had foreign exchange contracts in place to manage this risk and had no other material exposure to foreign currency.

24d. INTEREST RATE RISK

NZRB is exposed to interest rate risk through its industry loans, cash and call account balances and short-term deposits. The carrying values of these exposures are detailed in the credit risk section of this note at 24b above. NZRB also has interest rate risk exposure in respect of its borrowings from the 2018 year; total interest from these borrowings were capitalised during the year.

As at 31 July 2018, if the interest rates had increased/decreased by 50 basis points, with all other variables held constant, the net surplus before distributions would have been \$0.2 million (2017: \$0.3 million) higher/lower as a result of higher/lower net interest receipts while there will be \$0.1 million increase/decrease in equity due to interest paid on borrowings being capitalised.

ANNUAL REPORT 2018

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JULY 2018 (CONT'D)

What were NZRB's unrecognised transactions?

25. COMMITMENTS

25a. OPERATING LEASE COMMITMENTS

At inception of a lease, a lease classification test is performed to determine whether the lease is a 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 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.

NZRB leases buildings under operating leases, as a lessee, for its TAB operations, as well as certain buildings for office functions. The leases have varying terms and renewal options. Upon renewal, the terms of the leases are negotiated.

For the year ended 31 July 2018 \$7.5 million was recognised as an expense within premises and equipment expenses in profit or loss in respect of operating leases (2017: \$7.6 million).

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

	2018 \$000	2017 \$000
Within one year	6,928	7,687
Later than one year but no later than five years	16,922	18,672
Later than five years	1,796	4,011
TOTAL OPERATING LEASE COMMITMENTS	25,646	30,370

25b. OTHER NON-CANCELLABLE OPERATING COMMITMENTS

NZRB has a number of non-cancellable operating commitments that relate to services other than the lease of land and buildings.

A contract is considered non-cancellable for any period where either no cancellation provision exists in the contract or where the requirements or costs of cancellation are so significant that cancellation of the contract is remote.

Non-cancellable contracts held by NZRB predominantly comprise technical services associated with the broadcasting of racing plus telecommunication services and fixed odds betting platform. The increase in operating commitments relates to longer term contracts with external parties in relation to the strategic initiatives.

Non-cancellable operating commitments are payable as follows:

	2018 \$000	2017 \$000
Within one year	19,374	20,080
Later than one year but no later than five years	51,331	50,749
Later than five years	32,097	45,457
TOTAL OTHER NON-CANCELLABLE OPERATING COMMITMENTS	102,802	116,286

Foreign-currency denominated commitments (i.e. FOB programme) included above have been translated using the indicative forward rates as of balance date corresponding to the period of the associated cash flows in those projects unless these have been hedged; in which case, the contract rates were used instead.

ANNUAL REPORT 2018

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JULY 2018 (CONT'D)

26. 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.

INDUSTRY LOAN GUARANTEE

On 5 February 2009, NZRB provided a guarantee to the BNZ in relation to Racing at Awapuni, Otaki and Trentham Combined Enterprises Incorporated (RACE Inc) to the value of \$5.3 million plus up to 2 years interest and the costs of collection (2017: \$5.3 million). New Zealand Thoroughbred Racing Incorporated have provided a back-to-back guarantee to NZRB covering the amounts guaranteed to BNZ. Refer to note 13.

OTHER THIRD PARTY GUARANTEES

On 1 April 2014, NZRB provided a guarantee to Windsor Park Leasing Limited over the payments of the NZ Live leased premises, relating to NZRB broadcasting activities. As at 31 July 2018, the amount payable under this guarantee has reduced to \$2.5 million (2017: \$2.9 million).

In 2015, NZRB assigned two leased properties to third parties, whereby NZRB continues to be liable for any outstanding rent in the event of default. As at 31 July 2018, the total amount payable under these agreements was \$3.3 million (2017: \$4.0 million). In the event of default by the third party, the Landlord and NZRB must undertake their best endeavours to secure a new tenant to mitigate losses.

On 18 December 2017, NZRB entered into an agreement with The New Zealand Racing Laboratory Services Limited to guarantee its bank loan used to finance the purchase of a laboratory equipment for a value of \$0.9 million. As at 31 July 2018, the amount payable under this guarantee remains at \$0.9 million; NZRB's guarantee will be released upon full settlement of the loan expected in the 2018/19 year (see Note 27).

27. SUBSEQUENT EVENTS

In August 2018, NZRB has acquired the laboratory equipment from The New Zealand Racing Laboratory Services Limited for \$0.9 million; NZRB's guarantee to the bank has since been extinguished on the settlement date of the sale on the 23rd August 2018.



ANNUAL REPORT 2018

SUPPLEMENTARY INFORMATION - REPORTING AGAINST BUDGET

FOR THE YEAR ENDED 31 JULY 2018

STATEMENT OF FINANCIAL PERFORMANCE

	ACTUAL 31 JULY 2018	UNAUDITED BUDGET 31 JULY 2018	VARIANCE
	\$000	\$000	\$000
BETTING AND GAMING TURNOVER	2,738,422	2,855,160	(116,738) ●
REVENUE			
Net betting revenue	287,572	287,858	(286) ●
Net gaming revenue	26,970	26,847	123 ●
NZ racing revenue shown overseas	20,529	26,804	(6,275) ●
Other revenue	24,178	28,627	(4,449) ●
TOTAL REVENUE	359,249	370,136	(10,887) ●
Turnover related expenses	68,933	74,234	(5,301) ●
PROFIT CONTRIBUTION	290,316	295,902	(5,586) ●
OPERATING EXPENSES			
Broadcasting	9,495	9,710	(215) ●
Communication and technology expenses	20,836	23,569	(2,733) ●
Depreciation and amortisation	19,800	18,295	1,505 ●
Foreign exchange (gain)/loss	29	5	24 ●
Premises and equipment expenses	14,982	15,006	(24) ●
Staff expenses	62,758	66,573	(3,815) ●
Other operating expenses	16,475	16,000	475 ●
TOTAL OPERATING EXPENSES	144,375	149,158	(4,783) ●
NET PROFIT BEFORE DISTRIBUTIONS	145,941	146,744	(803) ●
Strategic initiatives investments	9,001	7,118	1,883 ●
UNDERLYING NET PROFIT BEFORE DISTRIBUTIONS	154,942	153,862	1,080 ●

Favourable = ● Unfavourable = ● Neutral = ●

ANNUAL REPORT 2018

SUPPLEMENTARY INFORMATION - REPORTING AGAINST BUDGET (CONT'D)

FOR THE YEAR ENDED 31 JULY 2018

DISTRIBUTIONS

	ACTUAL 31 JULY 2018	UNAUDITED BUDGET 31 JULY 2018	VARIANCE
	\$000	\$000	\$000
BETTING			
Distributions to racing codes	148,200	150,800	(2,600)
Distributions to The Races Limited Partnership (TRLP)	2,600	-	2,600
TOTAL DISTRIBUTIONS FROM BETTING NET PROFIT	150,800	150,800	-
(Loss)/Profit retained for reinvestment distribution	(16,426)	(15,500)	(926)
BETTING NET PROFIT	134,374	135,300	(926)
GAMING			
Distributions applied to racing industry	10,576	12,100	(1,524)
Distributions applied to NZRB race form publication expenses	1,284	1,200	84
Distributions to The Races Limited Partnership (TRLP)	909	900	9
Distributions to sporting external bodies	3,390	3,600	(210)
Distributions from prior year undistributed gaming surplus	(1,568)	-	(1,568)
TOTAL DISTRIBUTIONS FROM GAMING NET PROFIT	14,591	17,800	(3,209)
Provision for undistributed gaming surplus	3,256	-	3,256
GAMING NET PROFIT	17,847	17,800	47
RIU			
RIU distribution	(6,280)	(6,300)	20
TOTAL DISTRIBUTIONS	159,111	162,300	(3,189)
TOTAL NET PROFIT	145,941	146,800	(859)

ANNUAL REPORT 2018

SUPPLEMENTARY INFORMATION - REPORTING AGAINST BUDGET (CONT'D)

FOR THE YEAR ENDED 31 JULY 2018

STATEMENT OF FINANCIAL POSITION

	ACTUAL 31 JULY 2018	UNAUDITED BUDGET 31 JULY 2018	VARIANCE
	\$000	\$000	\$000
CURRENT ASSETS			
Cash and cash equivalents	17,701	18,600	(899)
Trade and other receivables	6,563	9,700	(3,137)
Other financial assets	27,756	23,400	4,356
Derivative	347	500	(153)
Other current assets	8,707	1,500	7,207
TOTAL CURRENT ASSETS	61,074	53,700	7,374
NON-CURRENT ASSETS			
Property, plant and equipment	36,497	60,100	(23,603)
Intangible assets	29,433	20,700	8,733
Other financial assets	1,333	4,200	(2,867)
Other non-current assets	1,732	2,500	(768)
TOTAL NON-CURRENT ASSETS	68,995	87,500	(18,505)
TOTAL ASSETS	130,069	141,200	(11,131)
CURRENT LIABILITIES			
Trade and other payables	28,638	22,700	5,938
Customer betting account deposits and vouchers	23,366	25,900	(2,534)
Other financial liabilities	3,525	5,100	(1,575)
Taxation payable	3,785	4,200	(415)
Provisions	4,075	3,500	575
TOTAL CURRENT LIABILITIES	63,389	61,400	1,989
NON-CURRENT LIABILITIES			
Borrowings	10,000	-	10,000
Other financial liabilities	2,360	22,900	(20,540)
Provisions	863	1,100	(237)
TOTAL NON-CURRENT LIABILITIES	13,223	24,000	(10,777)
TOTAL LIABILITIES	76,612	85,400	(8,788)
NET ASSETS/TOTAL EQUITY	53,457	55,800	(2,343)

ANNUAL REPORT 2018

DIRECTORY

WELLINGTON (HEAD OFFICE)

106-110 Jackson Street
Petone
Lower Hutt 5012

PO Box 38899
Wellington Mail Centre
Lower Hutt 5045

Phone: + 64 4 576 6999
Web: www.nzrb.co.nz

NORTHERN REGION

Level 1
60 Stanley Street
Auckland Central 1010

PO Box 37649
Parnell
Auckland 1151
Phone: +64 9 347 2600

WAIKATO/BAY OF PLENTY REGION

6 Clow Place
Hamilton 3206

PO Box 10501
Te Rapa
Hamilton 3241
Phone: +64 7 838 8800

CENTRAL REGION

690 Tremaine Avenue
Palmerston North

PO Box 637
Palmerston North 4440

Phone: +64 6 357 2054
Fax: +64 6 357 2845

CANTERBURY/WEST COAST/MARLBOROUGH REGION

5 Moule Street
Addington
Christchurch 8024

Private Bag 4746
Christchurch 8140

Phone: +64 3 338 1420
Fax: +64 3 338 1424

OTAGO/SOUTHLAND REGION

30 Teviot Street
Dunedin 9012

PO Box 600
Dunedin 9054

Phone: +64 3 455 9710
Fax: +64 3 455 9715

BOARD MEMBERS

Glenda Hughes
Independent Chairperson
Mauro Barsi
Greyhound Code Nominee

Bill Birnie
Independent Member

Graham Cooney
Independent Member

Rod Croon
Harness Code Nominee

Greg McCarthy
Thoroughbred Code Nominee

RACING BOARD LEADERSHIP TEAM

John Allen
Chief Executive Officer

Janine Belcher
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

SOLICITORS

Minter Ellison Rudd Watts
Wellington

AUDITORS

PwC
Wellington

BANK

ANZ Limited
Wellington





NEW ZEALAND
RACING BOARD

