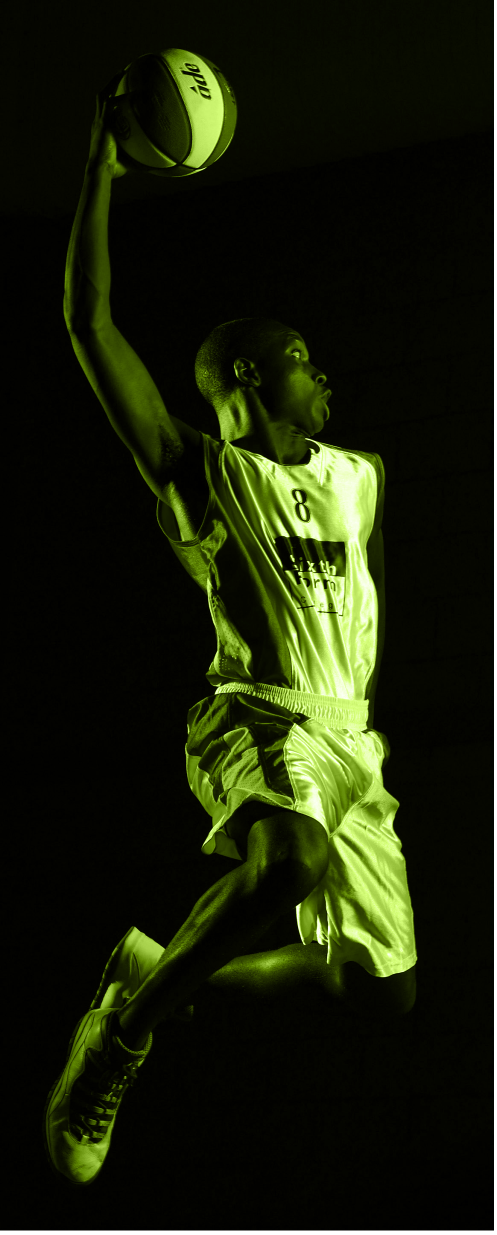



# STATEMENT OF INTENT

2019 - 2021

NEW ZEALAND
RACING BOARD

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## OVERVIEW

**As the New Zealand Racing Board (NZRB) enters the 2018/19 season, it does so after a year of significant transformation and delivery. We're delivering on our financial targets, making good progress in the delivery of our strategic initiatives and delivering on our commitments to the racing industry.**

We welcome the appointment of senior Australian racing expert John Messara to review the New Zealand racing industry's governance structure. We look forward to his recommendations on future directions for the industry and have given him our full support. The current structure of the industry set out in the Racing Act 2003 is nearly 15 years old, and we agree that it is an appropriate time for such a review to ensure that racing remains relevant in the 21st century. The industry is under significant pressure and many owners, trainers, stable hands, jockeys and drivers are living week to week, struggling to make ends meet.

While this review has taken place, NZRB is continuing to explore broader strategic options that may provide improved returns and address the challenges inherent in the industry, however, we are mindful that these may be potentially affected by the outcomes of the Messara review. Further, we've been pushing hard to progress our key strategic initiatives that will, once fully implemented, significantly improve the customer experience and we expect will increase annualised net profit above $200 million.

### DELIVERING FINANCIAL RESULTS

NZRB is on track towards delivering our challenging full year operating profit target of $153.9 million for 2017/18, up $5.9 million (4.0%) on last year, a result underpinned by growth in customer numbers combined with ongoing margin improvement and disciplined cost management. This includes optimise the calendar financial benefits that have been realised by NZRB and are now embedded in our operating profit.

However, we continue to face a number of challenges. After receiving strong support across Parliament at its first reading, the Racing Amendment Bill which we know as 'Racefields' is still currently at the Primary Production Select Committee. This delay impacts NZRB's profit target for the year and is costing the industry around $1 million each month from product fees not being collected. NZRB and the codes have reiterated our desire to see progress and we have committed to provide whatever support we can in having the new legislation passed as soon as possible.

Notwithstanding this delay, we've taken positive steps to mitigate some of this impact by speaking directly to corporate bookmakers to implement agreed Racefields type product fees for New Zealand racing. In April, we signed a product fee and media rights deal with Crownbet in Australia which will see all New Zealand racing available as part of Crownbet's digital offering. Crownbet will also use New Zealand Racefield information, in conjunction with their wagering activities, and pay a product fee based on their wagering turnover on New Zealand racing. Our broadcast partner Tabcorp is allowing their Sky racing channels to be available to Crownbet customers, taking all three codes of New Zealand racing to a new audience in the Australian market that we haven't been in before.

The passing of the Australian Interactive Gambling Act in August 2017 has had limited impact on our turnover or profitability, with only 800 customers based in Australia impacted when the law was enacted, and very few of these were high-staking customers.  However, we are cognisant that it does create a challenge for New Zealand customers travelling to Australia, as no bets can be placed with the New Zealand TAB when the bettor is physically located in Australia. NZRB will be liaising with New Zealand and Australian Government officials to discuss the new law and its impact on New Zealand customers, although this will be further mitigated through the enactment of our own Racefields legislation which will see us collecting fees from Australian bookmakers taking bets from New Zealand customers or offering New Zealand-based events for betting.

Distributions for the racing codes for 2018/19 are budgeted at $151.6 million, a $0.8 million increase on last year to offset increased venue services charges to the codes from the vision capture upgrade. This includes the $12 million of additional funding targeted at increasing stakes across the 2017/18 and 2018/19 seasons that has been approved by the Board. A further amount of $2.6 million is being distributed to fund the continuation of the activities and expenses of the Event Marketing and Logistics (EML) business, which was transferred to the equine codes on 1 August 2017.

## OVERVIEW (CONTINUED)

As profitability increases to around $200 million in 2019/20, the expectation is code distributions will also be lifted from $151.6 million to $172.2 million while enabling the repayment of debt and an assumed level of profit retention for future reinvestment. Code distributions are expected to grow further in 2020/21, from $172.2 million to $190.0 million on the back of a lift in profit close to $220 million.

**DELIVERING CUSTOMER GROWTH**

To achieve the growth in profitability required to sustain the industry, NZRB has been focused on substantially increasing the number of customers betting with us through our Customer and Channels programme. We're focused on building an improved betting experience for all Kiwis so we can get more of them engaged in betting to drive and sustain the future of our business and the future of the racing industry as a consequence.

Sports betting is profitable for our business, and the growth in profitability from this source directly benefits racing. Major events are also a key opportunity for NZRB to acquire new customers to bet on the sports they are familiar with, and we know that once they are comfortable with our product a significant number go on to place a bet on racing too.

We've had a strong year with our customer acquisition campaigns. Up to 30 April 2018, our account customer base (people who have bet in the last 12 months) sat at 220,000, representing 15% growth on the number of customers who bet during the 2017 season. Over the same period, we have seen 19.7% growth in the number of active account customers, averaging 113,400 compared to 94,700 for the same period a year prior.

The British & Irish Lions Tour in mid 2017 provided an important strategic opportunity to reposition the TAB brand with the New Zealand public and gain wider mainstream appeal. More than 16,000 new TAB account customers placed their first bet during this time, leading to 7% growth in active customers last year from this campaign and over 10,000 of these customers have gone on to place a bet during the current 2017/18 year. Other major events were the Conor MacGregor/Floyd Mayweather and Joseph Parker/Anthony Joshua boxing bouts where 12,000 new account customers were acquired and 24% of those customers have gone on to bet on racing.

In this financial year to date all marketing campaigns that are specifically targeted to acquire customers from sporting events have resulted in 53% of those new customers placing a bet on racing.

By far our biggest campaign was centred on the Spring Racing Carnival, where 22,000 new account customers were acquired during October and November 2017 (compared to an average of 14,000 during this same time the previous two years).  The FIFA World Cup in June/July 2018 has also been a major focus and was seen as a great opportunity to acquire new first time bettors and drive extra betting activity from existing customers.

We continue to optimise and upgrade our retail network, offering customers a smart, modern environment to spend time in. We're looking at advancing our multi-channel offerings through digital enablement, with our Courtenay Place TAB selected as a live test site for the development of in-store electronic form. The trial gives us the ability to test our retail customers' propensity to migrate to electronic form instead of paper-based form and will ultimately lower costs and benefit the customer by providing them with up to the minute data available.

The TAB Mobile App continues to demonstrate strong growth. Improvements to the app including the addition of exotic bet types, live streaming of TAB Trackside and racing form has contributed to tote bet count doubling in the twelve months to the end of April (from 1.4 million bets to 3 million bets on the app during the previous year).  In terms of overall activity, the number of monthly active users on the mobile app is now around 40,000, compared to 27,000 at the same time last year, and total year on year betcount has grown from 6.6 million to 10.2 million in the period to the end of April 2018 - up 55%.

Further enhancements to the mobile app continue and work on the TAB website is focused on enhancing design features to look and feel like the new fixed odds betting website to enable a smooth transition for our customers.

## OVERVIEW (CONTINUED)

### DELIVERING OUR STRATEGIC INITIATIVES

Our new Fixed Odds Betting (FOB) platform is on track for launch early next season and will give our customers a genuine world class experience. Over the past year we have completed a huge body of work - planning, designing, developing and testing the technology that will enhance our current capability.

Along with the new platform we will be delivering a new website and mobile app that will deliver a more compelling betting experience to our customers while significantly enhancing the number of betting opportunities we can offer.

The programme leverages the scale, capability and experience of our chosen partners, OpenBet and Paddy Power Betfair, allowing NZRB to remain competitive, increase our revenue and in turn, our distributions back to the industry.

Major project work is also underway as we design and implement the long term strategy for how racing vision in New Zealand is captured. The first phase was delivered late last year and saw Greyhound racing go high definition (HD) for improved customer viewing, as well as moving to a centralised production model with a purpose-built fixed control room that provides cost-efficiencies. From August through October 2018, the first two new outside broadcast vehicles and an expansion trailer (to support carnival meeting capability) will be introduced to the field.

Optimise the Calendar is an industry-focused project, looking at how we can best structure our calendar for optimal benefit for our industry. Changes to the calendar were introduced in the current racing year and will deliver $3 million in financial benefits to NZRB and the industry. Our focus is now on venues.

The issue of tracks, weather-readiness, and the potential for all-weather tracks is one that needs to be urgently addressed. It is not a simple issue to correct as there is a big variation in tracks around the country and in the manner and frequency in which they are used. We are currently engaging in discussions with the three racing codes and have sought feedback from the racing industry to inform the development of a Future Venue Plan which will help generate maximum benefits for racing’s stakeholders, participants and investors by delivering strategic investment in fit-for-purpose infrastructure and increased financial returns.

We were pleased with the amount of feedback received during part one of the consultation and a summary of the key themes will be shared with the industry in the coming months with a further round of consultation planned for late 2018.

All of these initiatives are designed to ensure that we can sustainably fund and support the racing industry through increased stakes, youth programmes, animal welfare and the development of infrastructure in the racing industry so that owners have the confidence to invest in our sport.

### MANAGING COSTS

Excluding investment behind our key strategic initiatives, underlying operating expenses in the 2016/17 year decreased by $5.0 million (3.6%) to $133.7 million compared to the prior year ($138.7 million in 2015/16). Within that, people costs decreased by $4.4 million (6.6%) on the prior year. In the 2017/18 year, we are expecting underlying operating costs to increase by $2.5 million (1.8%) to $136.2 million, in line with budget. People costs are forecast to be $2.3 million (3.7%) below the prior year and $2.6 million (4.1%) below budget, however, that is offset by an increase in regulatory and compliance costs in line with new legislation, growth in gaming operations and associated costs, and higher technology costs due to continued investment in underlying technology platforms and increased security requirements.

NZRB remains committed to undertaking a broader review of our operating costs. This was paused following the commencement of the Messara review and other strategic options analysis but will be reconsidered in the 2018/19 season.

## **OVERVIEW** (CONTINUED)

Overall operating expenses for 2018/19, excluding investment costs behind the key strategic initiatives, are budgeted to increase by $0.7 million (0.5%) to $136.9 million. This figure still remains lower than our 2015/16 actual operating expenses of $138.7 million. Budgeted increases in communication and technology expenses of $0.9 million is a key driver that reflects a continued investment in our core operating systems and platforms including an increase in security and compliance requirements.

Staff, broadcasting, RIU and regulatory and compliance costs also increase to ensure we meet our regulatory obligations around the health and safety of our operations staff traveling to race courses across the country. These increases have been largely offset by lower depreciation and various cost savings initiatives as part of an organisation-wide procurement programme currently being implemented which is reducing costs across the business.

### DELIVERING A SECURE FUTURE

NZRB is now in the final phase of implementing a series of key strategic initiatives that will drive a significant increase in revenue and deliver a world class experience to our customers, but this is not an organisation that is going to stand still. We are now looking to the future at other opportunities to further increase betting revenue opportunities in our market.

We intend to continue our focus on large campaign-based customer acquisition, leveraging major events and providing alternative access points to wagering for those who are keen to bet. Retaining customers is also a major focus and we are looking at evolving our customer reward and recognition programs for top tier customers while delivering the next generation of multi-channel solutions in retail to improve self-service options and the digital experience.

There is also an opportunity to increase our reach and grow our revenue by diversifying the business. Partnering with other high volume media organisations during major events would allow us to increase our presence in editorial and advertising space while providing exclusive content to our customer base to supply more than just wagering information.

As an industry we need to work together to create a better wagering product for domestic and export markets by reviewing our industry footprint to better position future investment in infrastructure. Better and more accessible trialling and training facilities, tracks and surfaces for the continuity of the racing programme are issues that the codes, clubs and other stakeholders will need to collectively address.

As the main financial provider for the racing industry, NZRB is highly aware of our need to perform and deliver and we are excited about the opportunities ahead. What we have achieved so far, what we are doing now and what we are planning for the future will deliver its people an enduring livelihood and ensure New Zealand racing is successful on the world stage.

**Glenda Hughes**
NZRB Chair

**John Allen**
Chief Executive Officer

## NZRB'S STRATEGIC FOCUS

**Over the last three years, NZRB has been leading the racing industry through a difficult but necessary strategic change. The leadership team that joined NZRB in 2014/15 intentionally narrowed the strategic focus towards solving the key issues stopping the industry from progressing towards long term sustainability, these being:**

- The TAB did not generate enough profit to sustain the industry in its current state, and this was largely because it didn't have enough customers.
- The technology platforms on which the industry were being run were old, not fit-for-purpose, and did not provide the opportunity to grow the industry's profitability.
- The domestic racing product was not optimised for success, right from the point of scheduling to the correlation with betting revenue.

NZRB developed and implemented three key strategies in place to address the above issues:

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

A number of programmes have been put in place to deliver these strategies designed to:

- Address technology risks that were compromising the operation and performance of core TAB systems.
- Move the culture and disciplines of NZRB to focus on delivering to customer needs.
- Focus the betting and marketing activities on delivering on what customers wanted.
- Address structural issues in the industry compared to international jurisdictions.
- Comply with legislative and financial institution requirements.
- Optimise the racing calendar to maximise revenue opportunities and reduce costs of servicing race meetings.
- Refresh tired retail environments.
- Provide the foundations for growth in distribution to stakeholders, plotting a path back to sustainability.

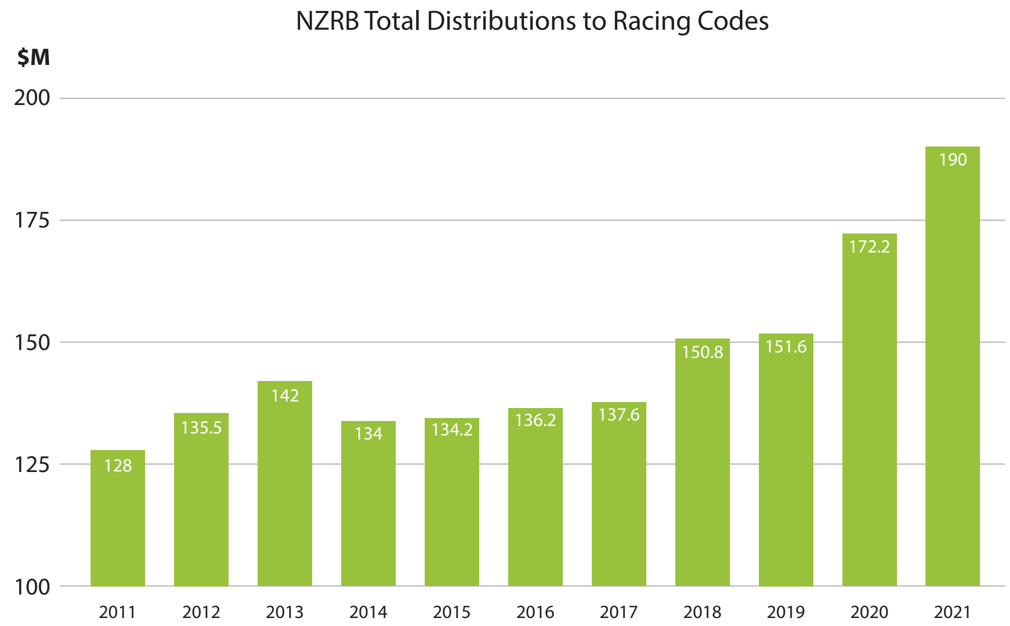
While these change programmes were unfolding, NZRB has also focused on ensuring distributions to the racing codes have been maintained, while also investing in increasing youth involvement, addressing immediate infrastructure issues, and enhancing stakes across all three codes.

| | COMPLETED | | IN PROGRESS | OPPORTUNITY |
|---|---|---|---|---|
| **CUSTOMER ▸** | BRAND REPOSITION<br>RETAIL REFRESH & OPTIMISATION | CRM<br>ELITE CUSTOMER PORTAL | WORLD CLASS CHANNEL EXPERIENCE<br>PARTNERING WITH MEDIA OUTLETS<br>DOUBLE ACTIVE ACCOUNTS | EXPLORE BRAND OPPORTUNITIES<br>400K ACCOUNT CUSTOMERS |
| **PRODUCT ▸** | OPTIMISE THE CALENDAR | FILL THE CLOCK | NOVELTY MARKETS | CONTENT PROJECT<br>OPENBET CAPABILITY<br>VIRTUAL RACING |
| **TECHNOLOGY ▸** | OPTIMUS | PCI | FOB<br>VISION CAPTURE | |
| **FOUNDATIONS ▸** | INFRASTRUCTURE INVESTMENT FUND<br>TAX WORK FOR BREEDERS | YOUTH INVESTMENT FUND<br>MINIUM STAKES FUNDING<br>ALCOHOL POLICY FOR CLUBS | RACEFIELDS<br>AML | NATIONAL VENUE PLAN |

**NZRB'S STRATEGIC FOCUS** (CONTINUED)

### THE RACING CODES

The design and intention of our activities is to deliver an increasingly profitable NZRB so that in turn we can deliver increasing distributions to the racing industry, funding increases in stakes money, youth development and improving our racing infrastructure.




Maximising our revenue opportunities both domestically and internationally requires NZRB to work closely with the racing codes. NZRB and the codes will continue to actively collaborate to develop policies and plans that support the collective success of our industry. We anticipate the areas of collaboration will include:

- Focusing on the quality of the products produced - we expect to discuss and finalise clear KPIs for racing products, for example, jumping on time and increasing average starter numbers.
- Focusing on continued enhancment of processes and procedures to monitor and ensure the welfare of racing animals.
- Promoting ownership opportunities that can leverage off NZRB and code databases and appeal to a wider section of the community.
- Working with codes to advance the National Venue Plan with a view to the future.
- Working to ensure alignment of interests across all sectors of the industry. For example, the alignment of club distribution with the maximisation of TAB turnover.

## NZRB'S STRATEGIC FOCUS (CONTINUED)

### OUR VISION, MISSION, AND PURPOSE

NZRB's **vision** for the future is:
*To secure the future of our industry, and position it as one of New Zealand's great success stories.*

To achieve this vision, each day our **mission** is to:
*Enhance Kiwis' involvement and enjoyment of racing and sports.*

And this in turn drives us each day to accomplish our **purpose**:
*To deliver a thrilling betting, racing and sports experience that all Kiwis can get involved in and be proud of.*

### 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 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 experiences and perspectives our people bring to 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.

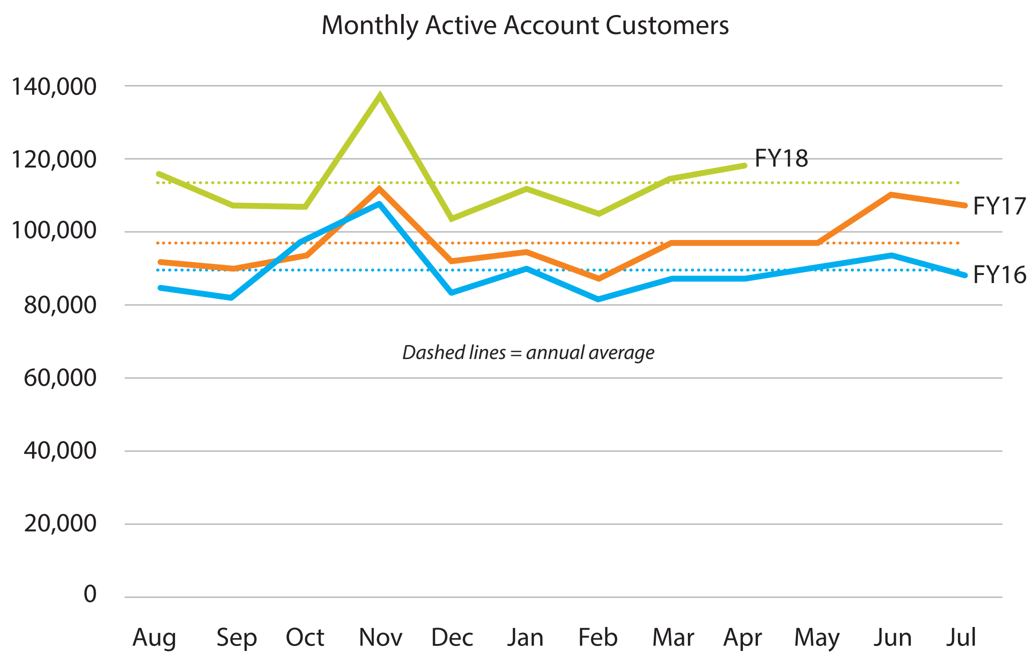
We know that diversity and inclusion do not just happen, which is why we have embedded these principles in our organisational values which underpin the way we work and how we treat each other. We are building our strategy and our first areas of focus are on resolving gender-based pay inequalities and 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.

## 2017/18 REVIEW

### KEY TRENDS

***Customer Acquisition***

The trends to April 2018 show strong growth in account customer numbers flowing from NZRB's strategic shift to be customer-led.  The last year has shown that major events provide opportunities to significantly grow the number of customers as they provide a key entry point for customers into the wider betting environment.

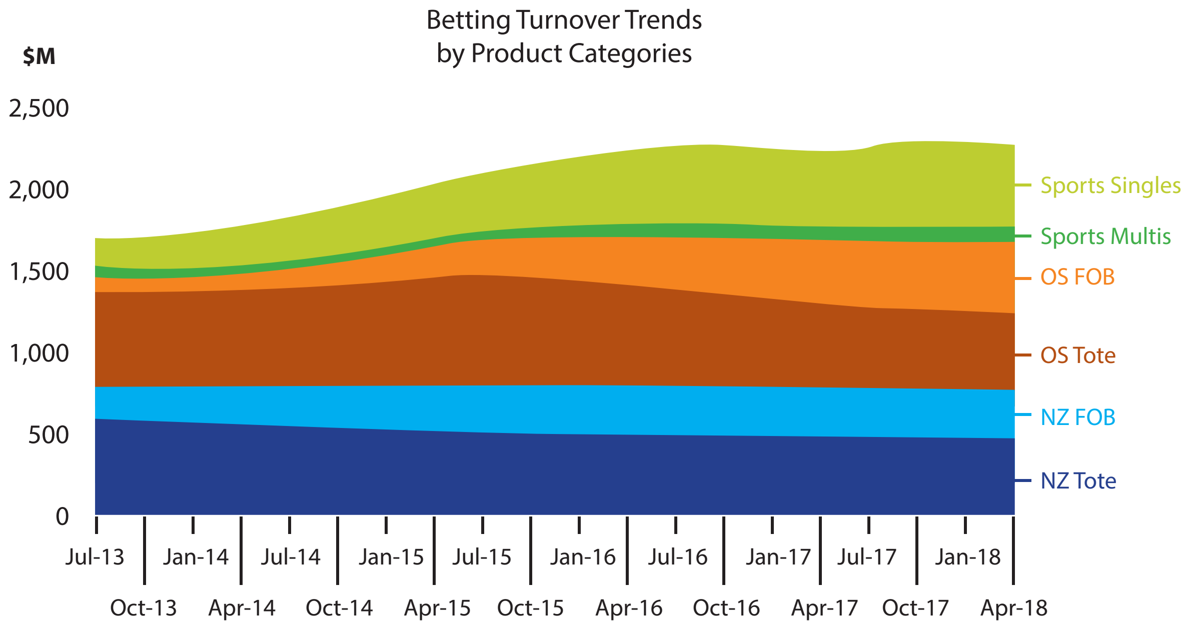



***Customer Betting Preferences***

The trends to May 2018 are in line with prior year SOI forecast and continue to demonstrate the shift in product and channel preferences of our customers.

- Racing gross betting revenue is up 1% on prior year, with a decline in racing tote (-3.5%) offset by growth in fixed odds (+13.5%), while sports gross betting revenue continues to grow, up 21%.
- Strong betting margin performance in 2017/18 has supported moderate turnover growth (+1.5%).  Overall gross betting margins have increased by +0.3ppts compared to the prior year, from 15.5% to 15.8%, despite the shift in customer preference towards fixed odds betting and 'in-play' sports products. Fixed odds products now comprise 57% of total betting turnover compared to 54% last year.
- Fixed odds now represents 42% of all racing turnover. The number of betting options has continued to increase by over 10% year on year.
- Sports activity continues to grow significantly - 37% of Sports revenue is now from multis, with several digital initiatives in the last year having improved accessibility and ease of placement for this product which is popular amongst new customers.

## 2017/18 REVIEW (CONTINUED)




Total turnover from racing products has remained relatively flat over the last three years with the decline in domestic racing offset in overseas racing products. Within these trends there has been a noticeable shift from tote to FOB for both domestic and overseas racing, driven by a shift of win and place betting between the two products which have comparable long-run margins and value of betting on 'exotic' products has been relatively constant over recent years. The largest proportional growth has occurred in overseas racing fixed odds and in-play sports betting in recent years. The continued growth in fixed odds products highlights the changing nature of NZRB's business and the importance of developing new capability and capacity to continue to deliver to changing customer preferences.

## **2017/18 REVIEW** (CONTINUED)

### KEY STRATEGIC INITIATIVES - 2017/18 REVIEW

***Customer and Channels***

This programme of work has three clear objectives: grow customers, deliver world class channels and lower our cost to serve. In 2016 we set a target of doubling active account customer numbers. In the first nine months of 2017/18 we have seen 19.7% growth in the number of active account customers per month, averaging 113,400 compared to 94,700 for the same period a year prior. This is a major part of NZRB's work to deliver significantly more money back to the New Zealand racing and sports industries, and build a long-term sustainable future for racing in New Zealand.

The Spring Racing and Rugby League World Cup attracted 23,454 new first time bettors who, as at 30 April, have generated $2.7 million in GBR and $1.5 million in additional profit. Similarly, we attracted 16,765 new first time bettors through the 2017 British Lions campaign, who in the same period generated a total of $2.7 million in GBR and $0.6 million in additional profit as at 30 April.

Our objective to deliver world class channels has seen us make changes to 29 venues in 2017 as we continue to upgrade and optimise our retail network. Our customers are enjoying having a modernised and more contemporary environment to spend time in.

A number of updates have been made to the TAB Mobile App to provide additional features and improve the customer experience. Along with tab.co.nz, changes have been made over the year to align to the look and feel that will be offered through new FOB channels when they are delivered with the primary objective of expediting customer adoption ahead of the future platform change.

***Fixed Odds Betting***

We're delivering a new fixed odds betting platform, website and mobile app that will significantly enhance the number of betting opportunities and the overall betting experience we offer our customers. The Fixed Odds Betting (FOB) programme leverages the scale, capability and experience of our partners, OpenBet and Paddy Power Betfair, while providing NZRB with the ability to access a first-class FOB engine, one used by many of the major wagering organisations across the world. This will allow NZRB to remain competitive, increase our revenue and in turn, our distributions back to the industry.

It's been an intense 12 months as we planned, designed and commenced the development and testing work required to deliver the programme later this year. By the end of July, both NZRB and OpenBet will have completed all development work, and testing on the new system will be well underway.

## **2017/18 REVIEW** (CONTINUED)

### *Offshore Betting ('Racefields')*

We're working with Government and other key stakeholders to address the growing issue of offshore betting. The proposed amendment will mean that offshore bookmakers who either take bets from people in New Zealand, or take bets on New Zealand racing, will have to pay a fee which will go back to the applicable racing or sports sectors.

The changes proposed will also see NZRB being able to take 'in-race' bets for the first time, similar to the popular in-play bets we are already able to take on sports events. We will also be able to take bets on sports without a National Sporting Organisation (with the agreement of Sport New Zealand), opening up a greater number of sporting events for betting options.

In March 2017, the then Minister for Racing, Hon Nathan Guy, announced proposed changes to the Racing Act were being progressed by the Government. Parliament passed the Racing Amendment Bill through its first reading in August 2017 during the final sitting week before the election. The Bill received broad cross-party support and was referred to the Primary Production Select Committee.

The committee, which is responsible for considering the Bill was due to complete its report in March 2018. However, following the commissioning of a review of the governance structure of the New Zealand racing industry announced by Racing Minister Winston Peters in April which includes the review of the Racing Act, progression of the Racing Amendment Bill has been delayed.

### *Optimise the Calendar*

The Optimise the Calendar project was set up to develop a racing calendar that promotes higher returns, along with a future-proofed venue footprint which enables more targeted, strategic investment. The first phase of the project focused on structural changes to the dates calendar. By improving the placement and flow of product for customers we forecast that the 2017/18 calendar will deliver $3.0 million in 'economic benefits' to the industry, compared to the practice of rolling over the previous year's calendar - this includes a financial benefit to NZRB of $1.8 million, which has now been incorporated into our financial forecasts. The guiding principles developed now underpin the design and decision making for the dates calendar going forward.

Work has also commenced on the development of a plan to help shape the future for New Zealand racing. The CEOs or NZRB, NZTR, HRNZ and GRNZ are committed to working collectively to safeguard racing for future generations. Investment is needed in the right racing, trialling and training infrastructure that will drive greater efficiency and sustained growth over the next 5, 10, 15 plus years, while creating the safest possible environment for our animals and modern facilities for racing participants, customers and communities.

In February/March 2018, we sought feedback from the New Zealand racing industry to help inform a Future Venue Plan (FVP) which will help generate maximum benefit for racing's stakeholders, participants and investors by delivering increased financial returns, strategic investment in fit-for-purpose infrastructure and a long-term sustainable future for the industry.

## **2017/18 REVIEW** (CONTINUED)

### *Vision Capture*

Responsible for the design and implementation of the long-term strategy for capturing racing footage in New Zealand, the project's scope includes a review of the current operating model for efficiency and ability to meet future requirements, as well as the replacement of the current end-of-life outside broadcast fleet.

Phase one was successfully delivered in November 2017 which included a new operating model for the way we capture vision for greyhound racing in New Zealand. Rather than bringing in large outside broadcast vehicles, we now use a new centralised production model that allows us to provide the 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 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. We now broadcast all New Zealand greyhound racing in high definition (HD) giving our customers a significantly enhanced viewing experience. Phase two of the Vision Capture project commenced in February 2018 and will see the first of four new outside broadcast vehicles replaced in a phased roll-out, and a gradual move to HD for equine meetings.

### *AML/CFT Compliance*

The Anti-Money Laundering and Countering Financing of Terrorism Act 2009 (AML/CFT Act) requires us to have systems and controls in place to detect and deter money laundering and terrorism financing. 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.

Alongside understanding who our customers are, and the legitimacy of the money they want to place with us, we will monitor customers transactions and accounts, and make reports about prescribed transactions, as well as suspicious transactions. We'll also report suspicious activity when observed.

In September 2017, NZRB established a project team who are completing detailed analysis of which processes and systems need to be changed to achieve AML/CFT compliance. These changes will be supported by training and engagement to ensure both our staff and customers know why the AML/ CFT regime exists, what we need to do to be compliant, and what NZRB is doing to meet our obligations.

## 2018/19 PRIORITIES

***Content and Distribution***

- NZRB is collaborating with the racing codes to develop a future content strategy that positions us for growth and diversification of the industry's assets.
- Two critical distribution agreements end in 2019; SKY NZ for the domestic transmission of the TAB Trackside channels, and the suite of Tabcorp agreements that include (but are not limited to) international content distribution.
- NZRB, alongside the codes, is committed to increasing the accessibility of NZ racing vision and TAB Trackside through both traditional and digital platforms and this will be a key element in the discussions with SKY NZ in relation to any potential future partnership.
- In April, the NZRB Board endorsed the recommendation to further develop a strategy that evolves and diversifies the approach to and role of content at NZRB.
- This strategy will evaluate whether offering a greater breadth of targeted sports and racing content can be used to support customer acquisition, customer engagement and assist in extracting additional value from current customers whether from betting or other diversified revenue streams.
- A key component is the development of content to help promote and grow the sport of racing in New Zealand, outside of the traditional Trackside racing betting content. A working group has been set up with the codes to explore this initiative.

***Tabcorp and Future International Strategies***

- Work is underway to clearly define key requirements and desired outcomes from our future international distribution agreements, especially as the wagering and media landscape in Australia continues to evolve and consolidate.
- Part of this is already occurring in more active engagement directly with our international partners, including Tabcorp, and discussions have already commenced with Tabcorp about the future beyond 2019.
- Code collaboration is central to this as we strive for outcomes that grow NZ racing in the long term and take advantage of multiple distribution channels, whilst safeguarding the significant revenues attached to the Australian market via our current arrangements with Tabcorp.
- Part of this work will be exploration and consideration of diverse distribution channels, both in Australia and beyond.

## 2018/19 PRIORITIES (CONTINUED)

***Customer and Channels***

We'll continue to deliver a range of initiatives designed to grow customer numbers in conjunction with 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 FIFA Football World Cup.
- 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 the retail channel, including improved self-service options and improved digital experience options in store.
- Evolving our customer reward and recognition programmes particularly for retention of top tier customers.
- Extending our customer base through partnering opportunities.

***Fixed Odds Betting***

- We're on track to deliver the new fixed odds betting platform early in the 2018/19 season.
- Key activities include: completing the development and testing of the recommended solution, communications and engagement for both our NZRB staff and TAB customers to support them through the changes as we go-live.
- We'll also transition to new ways of working to support the new FOB platform and have an eye on the future enhancements that we can deliver as a result of the new capability.

***Offshore Betting ('Racefields')***

- The Minister for Racing, Hon Winston Peters announced in April 2018 that an independent report has been commissioned to review the governance structure of the New Zealand racing industry.
- The review will be undertaken by John Messara, an Australian racing administrator who has served as Chair of both Racing New South Wales and Racing Australia, and includes the Racing Act and the Racing Amendment Bill.
- Progress has been halted until the review is complete mid 2018.

***Optimise the Calendar***

- The racing calendar for the 2018/19 season was finalised in June 2018 following three rounds of consultation with the racing industry and other recognised industry organisations.
- The design of the calendar is underpinned by the guiding principles developed by the joint working group in 2017 and sees structural changes to improve the placement and flow of product for customers.
- The financial benefit to NZRB from changes to the racing calendar of $1.8 million (part of the overall $3 million economic benefit to the industry) has been incorporated into our financial forecasts.

## 2018/19 PRIORITIES (CONTINUED)

***Future Venue Plan***

- The online survey completed by the racing industry designed to help inform the Future Venue Plan closed in April 2018. The feedback, along with a range of other relevant information, is being reviewed and considered by a joint working group including representatives from NZRB, NZTR, GRNZ and HRNZ.
- The joint working group will investigate, develop and provide recommendations on the long-term racing and training infrastructure footprint for the future delivery of racing in New Zealand, with a view to consult with the industry in October 2018.

***Vision Capture***

- Phase two of the Vision Capture project will see the introduction of two new outside broadcast vehicles (OBVs) for equine meetings and an expansion trailer to support our carnival meeting capability. They're expected to be rolled out from August through to October 2018.
- With the new OB vehicles comes a move to high definition (HD). The transition will be gradual, in line with the implementation of each new part of the solution, i.e. as each new OB vehicle comes online, all races covered by that vehicle will be captured in HD. It's an exciting move for the racing industry and it significantly enhances the product we offer to customers.
- We're aiming to have approval for phase three by August 2018. This will determine the timing of the next two OBVs. The intention is to have them implemented by the end of next season, July 2019.

***AML/CFT Compliance***

- Achieving AML/CFT compliance requires delivery of a number of streams of work by 1 August 2019. This includes:
  - Vetting - implementing processes that involves checking a person's background to establish their suitability for the position and to confirm that they have not falsified their credentials.
  - Reliance on Agents - an agency agreement put in place that allows all identified pubs, clubs, agencies and oncourse operators to authorise staff to collect this information on behalf of NZRB.
  - Customer Identification - implementing processes and procedures to ensure our staff carry out Customer Due Diligence (CDD) before opening accounts or conducting occasional transactions.
  - Transaction Monitoring and Reporting - having systems in place to track AML transactions (deposits, withdrawals and bets) for every account holder. This will help identify any changes in a customer's betting behaviour and trigger necessary alerts such as spikes in deposits or changes in a person's betting behaviour.
  - Record Keeping - establishing policy to support the length of time different types of records must be obtained.
- These changes will be supported by training and engagement to ensure we all know why the AML/ CFT regime exists, what we need to do to be compliant, and what NZRB is doing to meet its obligations.

## THE FUTURE

The strategies that NZRB has in place are working; NZRB has reliable and fit-for-purpose systems, has mitigated significant systems risk, has a focus on the areas that generate revenue and has put in place programmes to address challenges inherent in the industry. The completion and progress of our major projects has provided the opportunity to significantly increase the betting revenue opportunities of the racing industry. NZRB is now reframing our strategy to the following:

| STRATEGY | TACTIC |
|---|---|
| **Growing topline revenue** *via customer-centric activity and product development* | **Customer acquisition**<br>• Continued focus on large campaign-based customer acquisition, leveraging major events.<br>• Providing alternative access points to wagering for those with a propensity to bet.<br>**Customer retention**<br>• Better product offering utilising Openbet capability and development.<br>• Delivering the next generation of multi-channel solutions into the retail channel, including improved self-service options and improved digital experience options in store.<br>• Evolving our customer reward and recognition programmes particularly for retention of top tier customers.<br>**Margin management**<br>• Better processes delivering optimum margin from predominant wagering activity.<br>• Promoting high margin products and developing new high return / margin products. |
| **Improving domestic product** *to create better wagering product for domestic and export markets* | **Investment in industry infrastructure**<br>• Tracks and surfaces for continuity of racing programme, and fewer abandonments.<br>• Better and more accessible trialling and training facilities.<br>• Optimise infrastructure footprint to minimise cost (National Venue Plan).<br>• Completion of Vision Capture project to have HD broadcast for equine and greyhounds, for domestic and international audiences..<br>**Exploring the introduction of product fees in collaboration with the codes**<br>• Clearly defined quality metrics tied to producing better wagering product.<br>• Payment for supply measured against agreed quality metrics. |
| **Diversification through partnering** *Entering partnerships to increase our reach and grow the funnel to our economic engine* | **Partnering with media outlets**<br>• Increase presence in editorial and advertising space on major events.<br>• Betslip embedded in relevant articles.<br>**Entertainment businesses**<br>• Sport bar / wagering destination.<br>• Content hub for racing / sport content with digital platform provider - funnel to TAB.<br>**Utilise account base**<br>• Provide access to exclusive content / shared account provision to customers by partnering with providers to supply more than just wagering.<br>**Increasing access to ownership of racing animals**<br>• Creating easier pathways to enter ownership with NZRB support. |

## FINANCIAL COMMENTARY

### 2017/18 FORECAST RESULTS

The 2017/18 forecast is based on the NZRB's actual performance to April 2018 and forecast performance for the remainder of the year.

- NZRB is on track towards delivering its full year operating profit target of $153.9 million for 2017/18, up $5.9 million (4.0%) on last year, a result underpinned by growth in customer numbers combined with ongoing margin improvement and disciplined cost management. Including optimise the calendar embedded benefits, this profit increases to $155.6 million. Reported net profit is expected to be $141.9 million, $2.1 million (1.5%) below last year which reflects the planned level of investment and implementation activities on the key strategic initiatives and other items year on year.
- Betting turnover is expected to grow ahead of last year at $2,347.6 million, up $103.0 million (4.6%) and below Budget by $37.6 million (1.6%). The increase in turnover is linked to customer growth as a result of successful acquisition campaigns combined with an increase in betting options across both racing and sport. This growth has been partially impacted by lower VIP betting activity as a result of new commingling restrictions with Tabcorp, however the active promotion of New Zealand hosted pools, particularly exotic betting products, to our VIP customers has offset some of this impact.
- Net betting revenue is forecast at $289.5 million, $12.0 million (4.3%) above last year and $1.6 million (0.6%) ahead of Budget. Strong betting margins are the result of improved margins across all fixed odds products and a positive change in product mix. The growth of 'in-play' betting, which has a lower relative margin than other products, has been impacted by a small number of Elite customers. As a result of these changing trends, the overall net betting margin is expected to be 12.3%, in line with last year and +0.2 ppts above Budget. Net gaming revenue is forecast at $26.8 million, $2.0m (8.1%) ahead of last year and in line with growth in turnover from new and refurbished TAB gaming venues.
- Other revenue and NZ racing shown overseas revenue is projected to be $45.3 million, which is $0.5 million (1.1%) lower than last year and $1.5 million (3.2%) below Budget largely due to a budgeted increase in export racing not being realised as a result of domestic race abandonments.
- Turnover related expenses are expected to be $69.8 million, which is $3.4 million (5.1%) above last year but $1.6 million (2.2%) lower than budget. Growth in sports turnover has resulted in higher National Sporting Organisation (NSO) commissions and increased betting on imported racing product has resulted in a corresponding increase in overseas racing product fees.
- Excluding investment behind our key strategic initiatives, operating expenses are expected to be $136.2 million, $2.5 million (1.9%) above last year and in line with Budget. Lower staff expenses that are forecast to be $2.3 million (3.7%) below the prior year and $2.6 million (4.1%) below Budget are offset by an increase in technology costs of $2.2 million (12.5%) due to continued investment in underlying technology platforms and increased security requirements. Other expenses are forecast to increase by $2.1 million (15.8%) on last year due to the impact of EML cost recoveries, increases in merchant fees as more customers fund their accounts with credit cards (offset by an increase in recoveries) and consultancy spend linked to regulatory and compliance requirements under legislation such as PCI. Anticipated costs relating to the strategic initiatives are expected to be $15.9 million for the 2017/18 year.

**FINANCIAL COMMENTARY** (CONTINUED)

**2018/19 BUDGET**

Consistent with last year's Statement of Intent, the 2018/19 Budget has been developed on a 'business as usual' basis to provide a better understanding of NZRB's underlying operating performance and excludes the capital investment and benefits in relation to delivering the key strategic initiatives. The benefits related to the optimise the calendar programme are now embedded in the business as usual results to allow for comparability between 2017/18 and 2018/19 years. Future investment for optimise the calendar relates to work on the Future Venue Plan. The estimated impact of the key strategic initiatives, including both capital investment and financial returns, has been provided in the SOI forecast.

Similar to the 2017/18 season, to insulate the industry from the impact of the significant investments being made in future growth initiatives, the NZRB will continue with the $4.77 million of Industry Enhancement Funds to support stakes, infrastructure and youth development and the announced commitment to deliver some of the future funding increases from these strategic initiatives early, ahead of full implementation, by providing an additional $12 million per year in both the 2017/18 and 2018/19 seasons to enhance participation, confidence and investment in racing.

- Underlying operating profit is budgeted at $159.3 million (including optimise the calendar benefits), an increase of $3.7 million (2.4%) on the profit forecast for 2017/18, excluding investment costs and benefits relating to the key strategic initiatives. This is made up of betting profit of $147.0 million, gaming net profit of $18.9 million less Racing Integrity Unit costs of $6.6 million. This represents a $2.9 million increase on the profit forecast for the 2018/19 financial year reflected in last year's Statement of Intent largely attributable to the inclusion of optimise the calendar embedded benefits combined with lower operating expenditure.

- Net betting revenue is budgeted at $292.1 million, an increase of $2.6 million (0.9%) on 2017/18 forecast. Betting turnover growth of $18.9 million (0.8%) is impacted by lower VIP betting and a lack of key sporting events in 2018/19 with underlying growth in imported racing and improved product mix leading to net betting margins increasing despite continued growth in lower margin products.

- Net gaming revenue is budgeted at $27.9 million, an increase of $1.1 million (4.3%) on 2017/18 forecast. Gaming turnover is budgeted to increase by $20.1 million (4.3%) due to same store growth as a result of key refurbishments and gaming upgrades continuing across the network. Net gaming revenue forecasts have been impacted by DIA restrictions on the opening of new gaming venues announced during 2017/18.

- New Zealand racing shown overseas revenue is budgeted to be in line with 2017/18 forecast at $20.9 million. Export revenue has been limited by unexpected domestic race abandonments offset by initiatives put in place by the optimise the calendar programme.

- Other revenue is budgeted at $24.5 million, an increase of $0.1 million (0.1%) on 2017/18 forecast. Lower cash balances due to investment in the key strategic initiatives combined with the additional industry funding leads to interest income reducing, as well as Sky income also decreasing impacted by falling subscriber numbers. This is offset by increased venue services charges ($0.8 million) as a result of the recent investment in outside broadcast vans under the Vision Capture project.

- Turnover related expenses are budgeted at $69.2 million, a decrease of $0.6 million (0.9%) on 2017/18 forecast. Growth in overseas racing rights and NSO levies in line with increased turnover is offset by savings in advertising, sponsorships and retail fees as the retail network continues to be optimised.

## FINANCIAL COMMENTARY (CONTINUED)

- Underlying operating expenses, excluding investment costs behind the key strategic initiatives, are budgeted to increase by $0.7 million (0.5%) to $136.9 million compared to 2017/18 forecast and is $3.3 million lower than last year's Statement of Intent for the 2018/19 season. This remains lower than our operating expenses from the 2015/16 year. The key drivers of this budgeted increase (including RIU) are as follows:
  - Communication and technology expenses are budgeted to increase by $0.9 million (4.3%) reflecting continued investment in our core operating systems and platforms including increased security and compliance requirements.
  - Staff expenses increase $0.4 million (excluding increase in RIU staff expenses of $0.2m) (0.8%) due to the impact of vacant positions held during 2017/18, labour recoveries against key projects and modest salary and wage increase for staff that is largely offset by various cost saving initiatives.
  - Other expenses increase $1.2 million (8.0%) and includes travel and accommodation costs to ensure the health and safety of operations staff traveling to race courses across the country, higher merchant fees from increased use of credit cards by new customers (partly offset by recoveries), legal fees expected to be incurred relating to renegotiation of key commercial agreements expiring in 2018/19, projected interest charges from the debt funding facility with ASB bank to fund the future growth projects currently being undertaken and consultancy expenditure related to regulatory and compliance initiatives in line with new legislation. These increases have been partially offset by lower depreciation and various cost savings initiatives as part of a procurement and partnering value strategy currently being implemented.
- A summary of the underlying operating cost increases is provided below:

| | $ MILLION | NOTES |
|---|---|---|
| **2017/18 OPEX Forecast** | **136.2** | |
| Staff costs | 0.4 | Impact of staff vacancies, labour recoveries and key projects |
| Technology investments | 0.9 | Includes core IT systems and security upgrades |
| Regulatory and compliance | 0.5 | Covers AML, PCI and Health & Safety |
| RIU | 0.3 | Increased RIU expenses |
| Depreciation & cost saving initiatives | (1.4) | Covers depreciation, Retail & procurement initiatives |
| **2018/19 OPEX Budget** | **136.9** | |

- Excluding investment in the strategic initiatives, the 'Operating Expenses to Revenue' ratio is budgeted at 37.5% down from the 38.1% projected in last year's SOI due to lower operating expenses in the 2019 budget. Including the strategic investments, the 'Operating Expenses to Revenue' ratio decreases from 38.1% in 2018/19 to 33.6% in 2020/21, as benefits from the strategic initiatives are realised. Total operating expenses (excluding strategic initiatives) five year CAGR forecast is 1.5%.
- BAU capital expenditure is budgeted at $16.0 million, which is in line with depreciation and prior years, with a particular focus on critical investment in the broadcasting vision capture project, technology infrastructure, gaming room upgrades, regulatory and compliance projects and business improvement initiatives.
- The net impact of the key strategic initiatives on 2018/19 is expected to increase net profit by $14.2 million that includes both investment costs and net benefits from the initiatives. Net benefits are expected to be realised from offshore betting (racefields) legislation ($6.5 million) plus benefits from the Customer & Channels and Fixed Odds Betting initiatives partially offset by costs associated with the Future Venue Plan and Anti Money Laundering legislation ($7.7 million net benefits).

## FINANCIAL COMMENTARY (CONTINUED)

- Capital expenditure for the strategic initiatives in 2018/19 is expected to be $17.4 million driven by ongoing investment in the Customer & Channels programme ($4.6 million), Fixed Odds Betting ($10.3 million) and Anti Money Laundering legislation ($2.5 million).
- Distributions to the codes is budgeted at $151.6 million in 2018/19, $0.8 million above the 2017/18 season reflecting an increase in distribution to cover the increased venue services charges as part of the Vision Capture project. As announced in April 2017, $12.0 million of additional funding targeted at increasing stakes was paid in the 2017/18 year. A further increase of $2.6 million is being distributed to fund the continuation of the activities and expenses of the Event Marketing and Logistics business, which was transferred on 1 August 2017 to The Races Limited Partnership.
- Total net assets/equity is budgeted to increase by $11.3 million in 2018/19 to $60.3 million which reflects the benefits from the strategic initiatives contributing a net $14.2 million in net profit. The launch of FOB and racefields legislation during the year and the continuation of the customer programme increases net profit. This is offset by costs associated with the Future Venue Plan and Anti Money Laundering legislative compliance programme together with the additional $12.0 million of industry funding announced in April 2017. The total equity position continues to build over the SOI period as benefits continue to increase from the strategic initiatives.

| | $ MILLION | NOTES |
|---|---|---|
| **2017/18 Forecast Net Assets/Equity** | **49.0** | |
| Operating profit (including retentions) | 9.1 | Reflects underlying growth in profit (incl. RIU) |
| Strategic initiative investments | 14.2 | Strategic initiatives - P&L impact |
| Additional industry funding | (12.0) | Linked to funding announcement |
| **2018/19 Budget Net Assets/Equity** | **60.3** | |

### 2018/19 FINANCIAL POSITION

During the 2017/18 year, NZRB's balance sheet has been leveraged to make critical investments in growth initiatives for the future of the industry while also increasing distributions to the industry. This includes a three year revolving debt facility that was established with the ASB bank to supplement NZRB's balance sheet and provide the flexibility required to manage overall funding requirements. As the benefits of the strategic projects are realised, NZRB will take a prudent view to repaying debt while continuing to invest and increase distributions to the industry.

### 2020 AND 2021 PROJECTIONS

Excluding the benefits and investment costs relating to the key strategic initiatives, the current business trends and operating plans are expected to increase net profit in 2019/20 and 2020/21 by a modest 1.4% and 1.6% respectively from a 'business as usual' perspective. Revenue and operating expenses are projected to grow in line with current trends and consistent with the New Zealand macro economic indicators and also reflects higher regulatory and compliance requirements in line with new legislation (i.e. Anti Money Laundering, Data Security and Health and Safety).

The key strategic initiatives are expected to deliver a significant increase in annualised net profit once fully implemented. In 2019/20, the strategic initiatives are expected to increase net profit by $39.6 million increasing to $55.4 million in the 2020/21 financial year.

## FINANCIAL COMMENTARY (CONTINUED)

### CODE DISTRIBUTIONS

During the 2017/18 year, NZRB has continued to make a significant level of investment to fund the major strategic initiatives and continue to implement key improvements to infrastructure. While these investments have impacted NZRB's cash flow, benefits from these projects have begun to be realised in the 2017/18 year specifically from the Customer & Channels and Optimise the Calendar programmes. Benefits from the FOB and Racefields initiatives are expected to be realised from the 2018/19 year.

To help insulate the industry from the impact of this upfront capital investment, NZRB will continue with the $4.77 million of Industry Enhancement Funds to support stakes, infrastructure and youth development and the announced commitment to deliver some of the future funding increase from these strategic initiatives early, ahead of full implementation, by providing an additional $12 million per year for 2017/18 and 2018/19 seasons to enhance participation and investment in racing.

Code distributions are budgeted at $151.6 million in 2018/19, $0.8 million above the 2017/18 year and an increase of $14.0 million (10.2%) over the 2016/17 season. The $0.8 million increase offsets the increased venue services charges to the codes as part of the Vision Capture project. As announced in April 2017, $12.0 million of additional funding targeted at increasing stakes will be paid in the 2017/18 and 2018/19 years. A further increase of $2.6 million is being distributed to fund the continuation of the activities and expenses of the Event Marketing and Logistics business from 1 August 2017. This increase is being funded from current cash reserves and projected profit retentions and a revolving debt facility undertaken with the ASB bank to fund the investment in the strategic initiatives. As benefits from the strategic initiatives are realised, any debt incurred will be paid down and a sustainable distribution policy implemented.

Distributions to the racing codes are expected to increase by $20.6 million to $172.2 million in 2019/20 and a further $17.8 million in 2020/21 as the financial benefits from the key strategic initiatives are realised.

## FINANCIAL FORECASTS

## STATEMENTS OF PROFIT OR LOSS

| *Years ending 31 July* | ($M) ACTUAL 2016/17 | FORECAST 2017/18 | BUDGET 2018/19 | FORECAST 2019/20 | FORECAST 2020/21 | 5 YEAR CAGR |
|---|---|---|---|---|---|---|
| **BETTING AND GAMING TURNOVER** | **2,680.9** | **2,819.6** | **2,858.6** | **2,927.6** | **2,995.5** | **2.8%** |
| **REVENUE** | | | | | | |
| NET BETTING REVENUE | 277.5 | 289.5 | 292.1 | 299.3 | 306.6 | 2.5% |
| NET GAMING REVENUE | 24.8 | 26.8 | 27.9 | 28.3 | 28.8 | 3.8% |
| NZ RACING SHOWN OVERSEAS REVENUE | 20.6 | 20.9 | 20.9 | 21.1 | 21.1 | 0.6% |
| OTHER REVENUE | 25.2 | 24.4 | 24.5 | 25.4 | 25.6 | 0.4% |
| **TOTAL REVENUE** | **348.1** | **361.6** | **365.4** | **374.1** | **382.1** | **2.4%** |
| TURNOVER RELATED EXPENSES | 66.4 | 69.8 | 69.2 | 73.4 | 75.7 | 3.3% |
| **PROFIT CONTRIBUTION** | **281.7** | **291.8** | **296.2** | **300.7** | **306.4** | **2.1%** |
| **OPERATING EXPENSES** | | | | | | |
| BROADCASTING | 9.7 | 9.5 | 9.7 | 9.8 | 10.0 | 0.7% |
| COMMUNICATION AND TECHNOLOGY EXPENSES | 17.6 | 19.8 | 20.7 | 21.0 | 21.5 | 5.0% |
| PREMISES AND EQUIPMENT EXPENSES | 14.9 | 14.7 | 14.1 | 14.3 | 14.6 | (0.5)% |
| STAFF EXPENSES | 62.4 | 60.1 | 60.7 | 61.8 | 63.2 | 0.3% |
| DEPRECIATION AND AMORTISATION | 15.8 | 16.7 | 15.1 | 15.3 | 15.6 | (0.3)% |
| OTHER OPERATING EXPENSES | 13.3 | 15.4 | 16.6 | 16.9 | 17.3 | 6.8% |
| **TOTAL OPERATING EXPENSES** | **133.7** | **136.2** | **136.9** | **139.1** | **142.2** | **1.5%** |
| **UNDERLYING OPERATING PROFIT BEFORE DISTRIBUTIONS, STRATEGIC INITIATIVES AND OTHER ITEMS** | **148.0** | **155.6** | **159.3** | **161.6** | **164.2** | **2.6%** |
| Made up of: | | | | | | |
| **BETTING NET PROFIT** | 137.8 | 144.3 | 147.0 | 149.2 | 151.7 | 1.9% |
| **GAMING NET PROFIT** | 16.2 | 17.5 | 18.9 | 19.1 | 19.4 | 3.7% |
| **RIU COSTS** | (6.0) | (6.2) | (6.6) | (6.7) | (6.9) | (2.7)% |

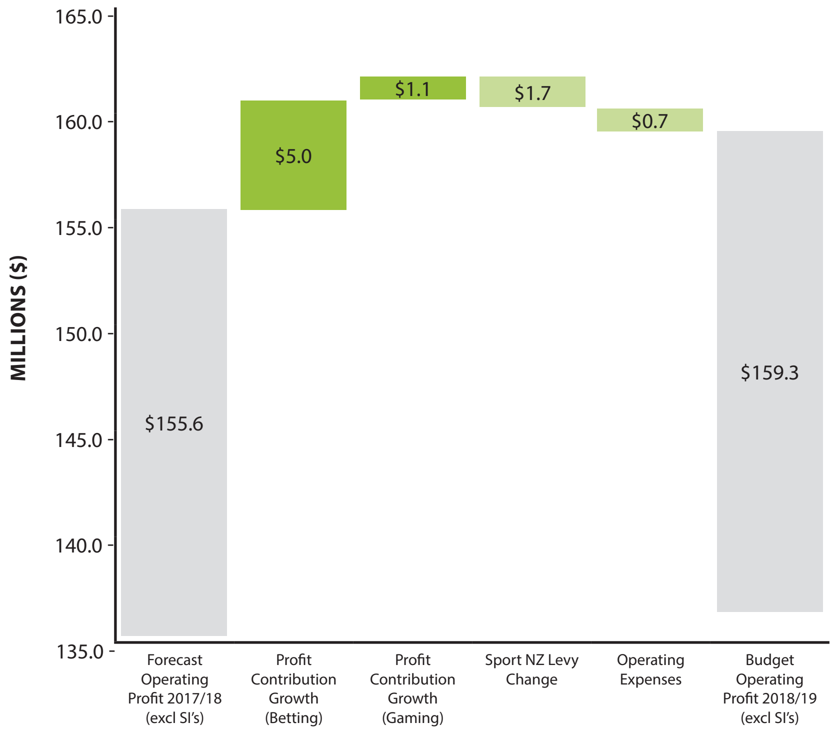
**FINANCIAL FORECASTS** (CONTINUED)

## KEY STRATEGIC INITIATIVES AND OTHER ITEMS

| *Years ending 31 July* | ($M) | | | | | |
|---|---|---|---|---|---|---|
| | ACTUAL 2016/17 | FORECAST 2017/18 | BUDGET 2018/19 | PROJECTION 2019/20 | PROJECTION 2020/21 | 5 YEAR CAGR |
| **UNDERLYING OPERATING PROFIT BEFORE DISTRIBUTIONS, STRATEGIC INITIATIVES AND OTHER ITEMS** | **148.0** | **155.6** | **159.3** | **161.6** | **164.2** | **2.6%** |
| **STRATEGIC INITIATIVES AND OTHER ITEMS NET PROFIT CONTRIBUTION** | | | | | | |
| OFFSHORE BETTING | - | 2.9 | 6.5 | 8.9 | 13.9 | |
| OTHER KEY STRATEGIC INITIATIVES | (4.6) | (15.9) | 11.0 | 30.7 | 41.5 | |
| OTHER ITEMS | 0.6 | (0.7) | (3.3) | - | - | |
| **TOTAL STRATEGIC INITIATIVES AND OTHER ITEMS NET PROFIT CONTRIBUTION** | **(4.0)** | **(13.7)** | **14.2** | **39.6** | **55.4** | |
| **REPORTED NET PROFIT BEFORE DISTRIBUTIONS** | **144.0** | **141.9** | **173.5** | **201.2** | **219.6** | **8.8%** |
| Made up of: | | | | | | |
| **BETTING NET PROFIT** | 133.8 | 130.6 | 161.2 | 188.8 | 207.1 | 11.5% |
| **GAMING NET PROFIT** | 16.2 | 17.5 | 18.9 | 19.1 | 19.4 | 4.6% |
| **RIU COSTS** | (6.0) | (6.2) | (6.6) | (6.7) | (6.9) | 3.3% |
| **STRATEGIC INITIATIVES AND OTHER ITEMS CAPITAL INVESTMENT** | | | | | | |
| OTHER KEY STRATEGIC INITIATIVES | - | 29.7 | 14.9 | 8.1 | - | |
| OTHER ITEMS | - | - | 2.5 | - | - | |
| **TOTAL STRATEGIC INITIATIVES AND OTHER ITEMS CAPITAL INVESTMENT** | **-** | **29.7** | **17.4** | **8.1** | **-** | |

## FINANCIAL FORECASTS (CONTINUED)

### WATERFALL - FROM 2017/18 FORECAST TO 2018/19 BUDGET




## FINANCIAL METRICS

**EXCLUDING STRATEGIC INITIATIVES AND OTHER ITEMS**

| *Years ending 31 July* | ACTUAL 2016/17 | FORECAST 2017/18 | BUDGET 2018/19 | PROJECTION 2019/20 | PROJECTION 2020/21 |
|---|---|---|---|---|---|
| OPERATING EXPENSES/TOTAL REVENUE RATIO | 38.4% | 37.7% | 37.5% | 37.2% | 37.2% |
| NET BETTING REVENUE MARGIN % | 12.4% | 12.3% | 12.3% | 12.3% | 12.3% |
| NET GAMING REVENUE MARGIN % | 5.7% | 5.7% | 5.7% | 5.7% | 5.7% |
| EARNINGS BEFORE INTEREST, DEPRECIATION AND DISTRIBUTIONS | 164.3 | 172.9 | 174.9 | 177.4 | 180.4 |
| DEPRECIATION AND AMORTISATION | 15.8 | 16.7 | 15.1 | 15.3 | 15.6 |
| CAPITAL EXPENDITURE | 12.5 | 16.0 | 16.0 | 16.0 | 16.0 |

**Note:** Financial metrics are based on the underlying Profit or Loss Schedule (excluding strategic initiatives and other items).

**INCLUDING STRATEGIC INITIATIVES AND OTHER ITEMS**

| *Years ending 31 July* | ACTUAL 2016/17 | FORECAST 2017/18 | BUDGET 2018/19 | PROJECTION 2019/20 | PROJECTION 2020/21 |
|---|---|---|---|---|---|
| OPERATING EXPENSES/TOTAL REVENUE RATIO | 39.1% | 41.4% | 38.1% | 34.9% | 33.6% |
| NET BETTING REVENUE MARGIN % | 12.4% | 12.3% | 12.6% | 12.7% | 12.8% |
| NET GAMING REVENUE MARGIN % | 5.7% | 5.7% | 5.7% | 5.7% | 5.7% |
| EARNINGS BEFORE INTEREST, DEPRECIATION AND DISTRIBUTIONS | 160.7 | 164.4 | 193.4 | 222.8 | 240.2 |
| DEPRECIATION AND AMORTISATION | 16.2 | 21.9 | 19.3 | 21.1 | 20.1 |
| CAPITAL EXPENDITURE | 12.5 | 45.7 | 33.4 | 24.1 | 16.0 |

## FINANCIAL FORECASTS (CONTINUED)

# DISTRIBUTIONS

| *Years ending 31 July* | ($M) | | | | |
|---|---|---|---|---|---|
| | ACTUAL 2016/17 | FORECAST 2017/18 | BUDGET 2018/19 | PROJECTION 2019/20 | PROJECTION 2020/21 |
| **BETTING** | | | | | |
| DISTRIBUTIONS TO RACING CODES | 137.6 | 150.8 | 151.6 | 172.2 | 190.0 |
| **TOTAL DISTRIBUTIONS FROM BETTING NET PROFIT** | 137.6 | 150.8 | 151.6 | 172.2 | 190.0 |
| PROFIT RETAINED FOR INVESTMENT OR DISTRIBUTION | (3.8) | (20.2) | 9.7 | 16.6 | 17.1 |
| **BETTING NET PROFIT** | **133.8** | **130.6** | **161.3** | **188.8** | **207.1** |
| **GAMING** | | | | | |
| DISTRIBUTIONS APPLIED TO RACING INDUSTRY [1] | 9.7 | 12.2 | 13.0 | 15.1 | 14.7 |
| DISTRIBUTIONS APPLIED TO NZRB RACE FORM PUBLICATION EXPENSES [2] | 1.4 | 1.1 | 1.0 | 0.9 | 0.8 |
| DISTRIBUTIONS APPLIED TO NZRB EML/TRPL EXPENSES [3] | 1.2 | 0.9 | 0.9 | 0.9 | - |
| DISTRIBUTIONS TO SPORTING EXTERNAL BODIES [4] | 3.2 | 3.5 | 3.8 | 3.8 | 3.9 |
| DISTRIBUTIONS FROM PRIOR YEAR UNDISTRIBUTED GAMING SURPLUS | (0.8) | (1.6) | (1.4) | (1.6) | - |
| **TOTAL DISTRIBUTIONS FROM GAMING NET PROFIT** | **14.7** | **16.1** | **17.3** | **19.1** | **19.4** |
| PROVISION FOR UNDISTRIBUTED GAMING SURPLUS [5] | 1.6 | 1.4 | 1.6 | - | - |
| **GAMING NET PROFIT** | **16.2** | **17.5** | **18.9** | **19.1** | **19.4** |
| **RIU** | | | | | |
| IMPACT OF CONSOLIDATION OF RIU | (6.0) | (6.2) | (6.6) | (6.7) | (6.9) |
| **TOTAL DISTRIBUTIONS** | **146.2** | **160.7** | **162.3** | **184.6** | **202.5** |
| **TOTAL NET PROFIT** | **144.0** | **141.9** | **173.5** | **201.2** | **219.6** |

1 The distributions to the racing industry represent the payments for the racing integrity costs, paid for under Racing Authorised Purpose of the NZRB's Class 4 Gaming Licence. These costs for the Budget 2018/19 year include the following:

| | |
|---|---|
| RIU | $6.63 million |
| Judicial Control Authority | $1.35 million |
| NZ Racing Laboratory Services | $1.75 million |
| Infrastructure Development | $0.50 million |
| Youth Recruitment & Retention | $0.25 million |
| Stakes | $1.10 million |
| Other | $1.42 million |

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

3 Distributions to recover Event Marketing and Logistics (EML) expenses relates to the application of funds from Gaming to reimburse certain EML expenses under the Racing Authorised Purpose. On 1 August 2017 the EML operations were transferred to The Races Partnership Limited (TRPL), which is a limited liability partnership between NZ Thoroughbred Racing and Harness Racing NZ.

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

5 The provision for undistributed Gaming surplus represents the amount of Gaming distributions paid out within 90 days of balance date.

**FINANCIAL FORECASTS** (CONTINUED)

## STATEMENTS OF FINANCIAL POSITION

| *Years ending 31 July* | ($M) | | | | |
|---|---|---|---|---|---|
| | ACTUAL 2016/17 | FORECAST 2017/18 | BUDGET 2018/19 | PROJECTION 2019/20 | PROJECTION 2020/21 |
| **CURRENT ASSETS** | | | | | |
| CASH AND CASH EQUIVALENTS | 29.0 | 15.0 | 13.0 | 13.0 | 34.5 |
| TRADE AND OTHER RECEIVABLES | 9.1 | 9.1 | 10.1 | 11.6 | 13.6 |
| NON-CURRENT ASSETS HELD FOR SALE | 1.2 | - | - | - | - |
| OTHER FINANCIAL ASSETS | 37.0 | 27.3 | 28.8 | 30.3 | 31.8 |
| OTHER CURRENT ASSETS | 1.5 | 1.5 | 2.7 | 3.9 | 5.1 |
| **TOTAL CURRENT ASSETS** | **77.8** | **52.9** | **54.6** | **58.8** | **85.0** |
| **NON CURRENT ASSETS** | | | | | |
| PROPERTY, PLANT AND EQUIPMENT | 39.3 | 49.9 | 54.5 | 52.4 | 46.2 |
| INTANGIBLE ASSETS | 14.0 | 25.1 | 31.2 | 30.4 | 25.6 |
| OTHER FINANCIAL ASSETS | 3.0 | 5.4 | 6.7 | 7.9 | 9.2 |
| OTHER NON CURRENT ASSETS | 2.6 | 2.6 | 2.6 | 2.6 | 2.6 |
| **TOTAL NON CURRENT ASSETS** | **58.9** | **83.0** | **95.0** | **93.3** | **83.6** |
| **TOTAL ASSETS** | **136.7** | **135.9** | **149.5** | **152.2** | **168.5** |
| **CURRENT LIABILITIES** | | | | | |
| TRADE AND OTHER PAYABLES | 26.8 | 26.8 | 27.8 | 29.3 | 31.3 |
| CUSTOMER BETTING ACCOUNT DEPOSITS AND VOUCHERS | 24.8 | 24.8 | 26.3 | 27.8 | 29.3 |
| OTHER FINANCIAL LIABILITIES | 5.2 | 3.3 | 3.3 | 3.3 | 3.3 |
| DERIVATIVE LIABILITIES | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| TAXATION PAYABLE | 4.2 | 4.2 | 4.2 | 4.2 | 4.2 |
| PROVISIONS | 2.4 | 2.4 | 2.4 | 2.4 | 2.4 |
| **TOTAL CURRENT LIABILITIES** | **63.6** | **61.7** | **64.2** | **67.2** | **70.7** |
| **NON CURRENT LIABILITIES** | | | | | |
| OTHER FINANCIAL LIABILITIES | 2.7 | 24.1 | 23.9 | 6.9 | 2.7 |
| PROVISIONS | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 |
| **TOTAL NON CURRENT LIABILITIES** | **3.8** | **25.2** | **25.0** | **8.0** | **3.8** |
| **TOTAL LIABILITIES** | **67.4** | **86.9** | **89.2** | **75.2** | **74.5** |
| **NET ASSETS/TOTAL EQUITY** | **69.3** | **49.0** | **60.3** | **77.0** | **94.0** |

## STATEMENT OF ACCOUNTING POLICIES

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

### BASIS OF PREPARTION

#### Reporting entity and statutory base

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

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

(a) to promote the racing industry;

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

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

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

#### Statement of compliance

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

#### Basis of measurement

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

## STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

**Changes in accounting policies**

All the accounting policies have been applied consistently to all periods presented in these financial statements. From 2018/19, the following standards have been in issue and applied by NZRB:

*NZ IFRS 9, Financial instruments*
NZ IFRS 9 replaces the provisions of NZ IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The standard covers the three areas of financial instruments accounting, namely, (a) classification and measurement, (b) impairment and (c) hedge accounting. NZRB adopted this standard from 2018/19 onwards. There are no significant recognition and measurement adjustments made in the first year of adoption; however, to ensure comparability, the presentation of comparative information was restated.

*NNZ IFRS 15, Revenue from contracts with customers*
NZ IFRS 15 supersedes NZ IAS 18 Revenue and applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The standard establishes a five-step model to account for revenue arising from contracts with customers where revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. NZRB adopted this standard from 2018/19 onwards with appropriate retrospective adjustments and restatements. There are no significant adjustments made in the first year of adoption.

**New standards and interpretations issued**

The financial statements have been drawn up on the basis of accounting standards, interpretations and amendments effective at the beginning of the comparative accounting period presented in these financial statements.

NZ IFRS 16, *Leases* was issued in January 2016 but is not yet effective and has, therefore, not yet been applied in this SOI. NZRB will adopt NZ IFR6 16 from the 2019/20 year which is the mandatory date of adoption. This standard introduced a single-lease accounting model for lessees which will result to almost all leases being recognised in the balance sheet representing an asset (the right to use the leased item) and a financial liability (for the rental payments under the contract) with the exception of low-value and short-term leases. Lessor accounting will not significantly change. Management's assessment of NZ IFRS 16 concluded that, given the significant lease properties of NZRB, the adoption of the standard will have a significant impact.

**Critical accounting estimates and assumptions**

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

## STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

**Basis of consolidation**

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

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

**Taxes**

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

**Operating segments**

NZRB has two operating segments:

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

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

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

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

## STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

**Distributions**

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

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

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

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

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

## STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

**Revenue**

Betting turnover comprises turnover from totalisator and fixed odds betting:

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

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

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

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

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

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

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

**Other revenue**

NZRB's other revenue comprise of the following:

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

## STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

**Cash and cash equivalents**

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

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

**Trade and other receivables**

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

NZRB maintains a provision for impairment losses based on a forward-looking expected credit losses determined from initial recognition of the receivable and assessed on a full term basis. Impairment relates to deterioration of customer's credit risk which may be indicated by various factors resulting to non-NZRB owned retail outlets being unable to make required payments; in making the assessment, consideration is given on such information as a retail outlet's past collection history, the age of receivable balances and the level of activity in retail outlet accounts. Impairment loss is reported in profit or loss and bad debts are written-off against the provision for doubtful debts in the period in which it is determined that the debts are uncollectible. If those debts are subsequently collected then a gain is recognised in profit or loss.

**Other financial assets**

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

Industry loans are debt instrument investments held by NZRB. 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 debt instruments representing funds held in trust to cover the balances of the customer betting account deposits and vouchers liability. Subsequent to initial measurement, all debt instrument financial assets are measured at amortised cost, using the effective interest method.

**Trade and other payables**

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

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

## STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

**Customer betting account deposits and vouchers**

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

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

**Property, plant and equipment**

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

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

| ESTIMATED USEFUL LIFE | |
|---|---|
| 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 (i.e., laboratory equipment, furniture and office equipment) | 5-10 years |
| Finance lease asset (term of lease) | 10 years |

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

## STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

**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.

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (i.e. an asset that necessarily takes a substantial period of time to get ready for its intended use or sale) are capitalised as part of the cost of that asset; all other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

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 are reviewed annually.

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

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

**Other financial liabilities**

Jackpot retentions are established in accordance with the Racing Rules pursuant to section 52 of the Racing Act 2003. These comprise amounts set aside from the dividend pools of certain specified bet types. The funds accumulated are used solely for supplementing certain future dividend pools for the originating racing or sports code.

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

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

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

## STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

**Provisions**

Provisions are recognised when the following three conditions are met:

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

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

**Financial instruments**

***Financial assets***

*Classification and measurement*

NZRB classifies its financial assets into the following categories based on its business model for managing the financial assets and the contractual terms of the cash flows:

(a) **Those measured at amortised cost**
This includes debt instrument assets that are held for collection of contractual cash flows representing solely payment of principal and interest. At initial recognition, these are measured at fair value plus transaction costs that are directly attributable to the acquisition of the asset. Subsequently, these are carried at amortised costs using the effective interest method.

Any gains or losses arising on derecognition as well as any interest income realised from these financial assets are reported in profit or loss. NZRB classifies its non-derivative financial assets under this category.

(b) **Those measured at fair value through other comprehensive income (FVOCI)**
This includes debt instrument assets that are held for collection of contractual cash flows representing solely payment of principal and interest **and** for selling the asset.

(c) **Those measured at fair value through profit or loss (FVPL)**
Financial assets that do no meet the criteria for amortised cost or FVOCI are classified and measured as FVPL.

NZRB only changes classification when and only when the business model for managing those assets changes.

*Impairment*

NZRB assesses on a forward looking basis the expected credit losses (ECL) associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, NZRB applies the simplified approach which requires expected lifetime losses to be recognised from initial recognition of the receivables. For debt investments carried at amortised cost, NZRB has applied the general ECL model which either uses a 12-month ECL or lifetime losses depending on whether there has been significant increase in credit risk.

All of NZRB's debt investments have low credit risk at both the beginning and end of the periods reported in this SOI.

## STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

***Financial liabilities***

*Classification and measurement*

NZRB classifies all of its non-derivative financial liabilities as 'financial liability measured at amortised cost' category. At initial recognition, these are measured at fair value less transaction costs that are directly attributable to the issue of the instrument. Subsequently, these are carried at amortised costs using the effective interest method.

Any gains or losses arising on derecognition as well as any interest expense incurred from these financial liabilities are reported in profit or loss (unless capitalised as part of cost of borrowing to fund a qualifying asset).

***Derivative financial instruments***

NZRB's derivative financial instruments include foreign exchange contracts used to hedge foreign currency exposures; these are designated under hedge accounting and are measured at their fair value; movements in the carrying amount of these hedging instruments are reported under OCI as part of equity to the extent the hedge is effective and are recycled to profit or loss upon maturity. Hedging gains and losses arising from payables associated with the acquisition of property, plant and equipment and intangible assets are included in the cost of that asset.

**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.

## DIRECTORY


### NEW ZEALAND RACING BOARD

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### 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