

# INTERIM

## FINANCIAL STATEMENTS

### FOR THE SIX MONTHS ENDED

# 31 JANUARY 2019



NEW ZEALAND  
RACING BOARD



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## UPDATE FROM THE CHIEF EXECUTIVE

**The New Zealand Racing Board (NZRB) has delivered another solid performance over the past six months despite a challenging environment for wagering in New Zealand. Reported net profit for the first half of 2018/19 was \$76.2 million, \$2.8 million or 3.5% down on last year, a result impacted by the absence of anticipated Racefield's legislation, lower betting activity from some high value customers and a delay in launching the new fixed odds betting platform.**

Despite these challenges we have continued to make the appropriate strategic investments to enable the long term sustainability of our business and the broader Racing Industry. We have implemented the biggest technology upgrade in the history of the TAB and now have a Fixed Odds Betting (FOB) platform that gives us the capacity to offer our customers a genuinely world class service. We have successfully delivered critical investments in our outside broadcast capability and customer acquisition and investment funding for racing infrastructure which will enable us to lift profitability and distributions to the codes in the future. I am confident that NZRB is on track towards delivering a net profit for the year that will exceed the 2017/18 season, but we don't expect it to be as strong as initially budgeted due largely to the absence of Racefields legislation and a delay in the FOB platform.

We are committed to our planned level of distributions to the racing Codes this season, that has increased to \$83.0 million, \$1.2 million or 1.5% up on last year, which includes funding for The Races (TRLP) of \$2.3 million. In addition, the third year of Industry Enhancement Funding from gaming activities saw \$1.2 million supporting Stakes (\$0.9 million), Infrastructure (\$0.2 million) and Youth Development (\$0.1 million). Our distributions from gaming to amateur sport was \$1.2 million driven by our strong gaming performance for the first half of 2018/19 and we paid \$4.4 million to national sporting organisations during the same period.

NZRB has also maintained a strict approach to cost management. In the first half of the year, reported operating expenses were \$72.0 million, down \$0.9 million or 1.2% on last year. Excluding the impact of strategic and significant regulatory initiatives (including AML), underlying operating expenses were \$65.5 million, \$2.9 million or 4.3% below last year. Staff expenses, property costs, broadcasting and depreciation are all tracking below last year despite ongoing investments in our technology platforms, regulatory and compliance initiatives in line with new legislation and higher merchant fees.

We continued our focus on growing customer numbers in the first half of the year, and despite a dip following the launch of FOB, we acquired 39,395 first time bettors from key marketing initiatives related to our Spring Racing and Summer of Racing customer acquisition campaigns. We also saw a record number of active account customers in November of 149,636 following yet another successful Melbourne Cup Carnival, beating our previous record held in November 2017 by 7%. In total 193,154 unique customers placed a bet in the first six months of the year, up 5.9% on last year.

Trends for the first six months of 2018/19 include:

- Digital channels make up 60% of betting turnover, a total of \$659.7 million, up marginally on last year.
- The Mobile App continues to be the fastest growing customer touch point, up 59% or \$47.2 million on last year.
- The rate of Tote betting decline held at the same rate as last year at -4.6%. Fixed odds betting turnover on racing and sport was down 1% and 5% on last year respectively that was driven by some of our high value Elite customers.

## UPDATE FROM THE CHIEF EXECUTIVE (CONTINUED)

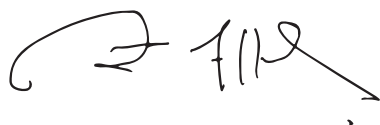
### STRATEGIC INITIATIVES

There has been significant progress in delivering NZRB's key strategic initiatives and there are some major regulatory projects we have undertaken in the first half of 2018/19 that will come into play in 2019/20:

- NZRB's new Fixed Odds Betting Platform was launched on 7 January 2019. This will deliver a significant lift in betting turnover with more competitive options and markets traded globally, combined with an improved customer experience and enhanced product margins. We anticipated the results in January being impacted as customers became familiar with the new system, however both turnover and net profit were up in February compared to last year and margins have returned to normal levels.
- The Customer and Channels programme has continued to deliver strong growth in customer numbers prior to the FOB launch, up 7.5% year to date in December on last year. The rate of growth was impacted by the launch of the new FOB platform but we are already seeing our Elite customers lifting their betting activity combined with other positive performances, particularly in sports betting.
- Phase three of our Vision Capture project is tracking well with two new HD outside broadcast vehicles operating in the Canterbury and Central regions. Our third and fourth OB trucks, for Northern and Southern, will be delivered later this year. Feedback from both the industry and our customers so far has been nothing but positive with the second OB truck capturing HD footage for both the Karaka Million and Karaka Sales in January.
- We have also seen the renegotiation of TAB Trackside and SKY television's rights agreement and we are currently working on a future content strategy, ensuring we can take quality racing product to as many customers as possible across different channels.
- Approved changes to the 2018/19 Racing Calendar to optimise betting revenue have continued to deliver positive financial results.
- Anti-Money Laundering and Countering Financing of Terrorism (AML/CFT) legislation comes into effect from 1 August 2019 requiring significant investment from the NZRB and a detailed implementation plan has been developed to meet our legislative requirements.

I recognise that right now, more than ever, racing does not have the luxury of time. Many parts of the industry are being challenged and we need an injection of funds to enable us to increase stakes, invest in infrastructure, support the development of the next generation of racing and raise the profile of our sport with the general public so as to ensure a future for the industry.

I remain very confident in the work of the Minister and Ministerial Advisory Committee but my team are not sitting on their hands waiting for a solution. We have more work to do and are looking at new ways to significantly improve our bottom line and increase the amount of money that is available to the industry to support investment and deliver outcomes in the short term to give real confidence to people who really want to make something of their lives in racing in New Zealand.



**John Allen**

Chief Executive Officer  
New Zealand Racing Board

# NZRB INTERIM FINANCIAL STATEMENTS 2019

## FINANCIAL HIGHLIGHTS FOR THE SIX MONTHS ENDED 31 JANUARY 2019

The New Zealand Racing Board (NZRB) achieved a reported net profit of \$76.2 million for the first half of the year, \$2.8 million (-3.5%) below last year and \$4.3 million (-5.3%) below budget. Excluding strategic initiatives, underlying operating profit was \$80.7 million, \$2.7 million (-3.2%) below last year and \$4.4 million (-5.1%) below budget.

### CURRENT PERIOD FINANCIAL PERFORMANCE AGAINST PRIOR PERIOD AND BUDGET

	UNAUDITED		
	ACTUAL 31 JANUARY 2019 NZ\$000	ACTUAL 31 JANUARY 2018 NZ\$000	BUDGET 31 JANUARY 2019 NZ\$000
Betting and gaming turnover	1,410.0	1,430.0	1,547.9
Total Revenue	183.5	188.1	200.2
<b>Net profit before distributions</b>	<b>76.2</b>	<b>79.0</b>	<b>80.5</b>
Strategic initiatives (net benefits and costs) and other costs	(4.5)	(4.4)	(4.6)
<b>Underlying operating profit before distributions</b>	<b>80.7</b>	<b>83.4</b>	<b>85.1</b>
Total group distributions	86.6	84.8	89.5

For more details, the reconciliation between the reported net profit before distributions and the underlying profit before distributions is found in Note 2 of the Financial Statements on page 18.

### BETTING AND GAMING TURNOVER

Total Turnover (Betting & Gaming) of \$1,410.0 million is \$20.0 million (-1.4%) behind last year and \$137.9 million (-8.9%) below budget. A decline in betting turnover vs last year (-3.6%) has been largely driven by limited betting activity from some of our high value Elite customers combined with lower VIP Turnover due to commingling rebate restrictions with Tabcorp. This has been partly mitigated by growth in customer numbers (up +7.5% to Dec-18) and planned expansion of imported racing, particularly North America that has been popular with punters. The delayed timing of benefits expected from the new Fixed Odds Betting (FOB) platform is a large contributor to the variance to budget.

In contrast, Gaming turnover has continued to grow at +9.7% to \$257.7 million driven by successful TAB refurbishments, EGM conversions and the impact of new sites in Mangere Bridge, Greerton and Lower Hutt.

### REVENUE

Total Revenue of \$183.5 million is \$4.5 million (-2.4%) behind last year and \$16.6 million (-8.3%) below budget, while underlying revenue (excluding strategic initiatives) is \$6.2 million (-3.3%) behind last year and \$8.9 million (-4.7%) below budget. This is largely driven by lower betting turnover from Elite and VIP customers combined with unfavourable results experienced in Racing and Sport fixed odds during the second quarter and the impact of FOB launch in January. This is partly offset by the growth in Gaming revenue (\$1.3 million or +9.8%) and New Zealand racing shown overseas (\$1.5 million or +13.3%), year on year. Net betting margins remain healthy at 12.4%, in line with budget and -0.2ppts below last year due to product mix and unfavourable results in Q2.

Other revenue increased by \$0.5 million (+4.1%) on last year; key movements in this category includes growth in merchant fee revenue of \$0.2 million (+8.6%) and racing services by \$0.3 million (+3.9%).

### EXPENSES

Combined net savings in turnover related expenses and operating expenses of \$1.7 million (-1.6%) were realised year on year that includes a planned increase in strategic initiative investment of \$1.8 million (+28.2%), driven by continued disciplined cost management. These cost savings significantly mitigated the lower than anticipated betting revenue performance.

In particular, underlying operating expenses (excluding strategic initiatives) are \$2.9 million (-4.3%) below last year and \$2.3 million (-3.4%) below budget despite ongoing investments in our technology platforms, regulatory & compliance initiatives in line with new legislation, higher merchant fees and loss of gaming recoveries. Staff expenses, property costs, broadcasting, depreciation and other expenses are all tracking below last year (refer to note 2 of the financial statements).

### DISTRIBUTIONS

Total betting distributions to the racing Codes is \$83.0 million, up \$1.2 million (+1.5%) from last year and includes the funding for The Races (TRLP) of \$1.8 million. Total gaming distributions of \$8.7 million, up \$1.0 million (+12.7%) on last year, includes \$7.5 million funding to the racing industry and \$1.2 million grants to Sporting Community Organisations.

### CURRENT PERIOD FINANCIAL POSITION AGAINST PRIOR PERIOD

#### ASSETS

Total assets of \$139.1 million have increased by \$9.0 million (+6.9%) on last year due mainly to the significant capital investments including software assets (FOB platform) and the new vision capture equipment; these planned investments are funded from cash reserves (down by \$9.6 million since July 2018) and borrowings.

#### LIABILITIES

Liabilities have increased by \$24.2 million (+31.6%) including additional borrowings during the period (up \$15 million since July 2018) which supported capital investments; other key movements include \$2.7 million of gaming surplus being retained for racing infrastructure projects expected to be distributed over the next few years; trade payables (up \$3.7 million) which is due to the large scale projects undertaken and taxes payable (up \$2.4 million) due mainly to seasonality.

#### EQUITIES

Total equity of \$38.2 million is down \$15.2 million (28.5%) compared to 31 July 2018 driven largely by the planned investment in strategic initiatives and other costs combined with an increase in Code distributions and a lower corresponding operating profit result mentioned above.

Liquidity is tracking below last year as expected due to planned strategic initiative investments drawing of surplus cash reserves partly offset by debt funding.



## *Independent review report*

to the Board Members of the New Zealand Racing Board

### *Report on the interim financial statements*

We have reviewed the accompanying interim financial statements of New Zealand Racing Board and the entities it controlled (together “the Group”) on pages 6 to 19, which comprise the condensed statement of financial position as at 31 January 2019, and the condensed statement of profit or loss and other comprehensive income, the condensed statement of changes in equity and the condensed statement of cash flows for the period ended on that date, and selected explanatory notes.

### *Board Members’ responsibility for the interim financial statements*

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

### *Our responsibility*

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

A review of interim financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. Accordingly, we do not express an audit opinion on these interim financial statements.

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

### *Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that these interim financial statements of the Group do not present fairly, in all material respects, the financial position of the Group as at 31 January 2019, and of its financial performance and cash flows for the period then ended, in accordance with IAS 34 and NZ IAS 34.





## *Who we report to*

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

For and on behalf of:

*PricewaterhouseCoopers*

Chartered Accountants  
28 March 2019

Wellington



# NZRB INTERIM FINANCIAL STATEMENTS 2019

## CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 31 JANUARY 2019

		UNAUDITED	
	NOTE	31 JANUARY 2019 \$000	31 JANUARY 2018 \$000
Betting and gaming turnover	5c	1,410,013	1,430,037
<b>REVENUE</b>			
Net betting revenue	5d	143,200	151,057
Net gaming revenue	5e	14,606	13,298
NZ racing shown overseas revenue		12,624	11,146
Other revenue	5f	13,106	12,584
<b>TOTAL REVENUE</b>		<b>183,536</b>	<b>188,085</b>
<b>TURNOVER RELATED EXPENSES</b>			
<b>OPERATING EXPENSES</b>	6	35,388	36,259
Broadcasting expenses		4,529	4,718
Communication and technology expenses	7a	12,833	10,303
Premises and equipment expenses	7b	7,230	7,442
Staff expenses	7c	32,217	31,780
Depreciation and amortisation		8,227	10,334
Foreign exchange loss		127	24
Other operating expenses	7d	6,803	8,216
<b>TOTAL OPERATING EXPENSES</b>		<b>71,966</b>	<b>72,817</b>
<b>TOTAL EXPENSES</b>		<b>107,354</b>	<b>109,076</b>
<b>NET PROFIT BEFORE DISTRIBUTIONS</b>		<b>76,182</b>	<b>79,009</b>
Distributions	4	86,618	84,798
Provisions for undistributed gaming surplus		4,775	2,668
<b>NET LOSS AFTER DISTRIBUTIONS</b>		<b>(15,211)</b>	<b>(8,457)</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
Movement in fair value of cash flow hedges *		(8)	559
<b>TOTAL OTHER COMPREHENSIVE LOSS FOR THE PERIOD</b>		<b>(15,219)</b>	<b>(7,898)</b>
<b>TOTAL OTHER COMPREHENSIVE LOSS ATTRIBUTABLE TO:</b>			
NZ Racing Board reserves		(15,168)	(7,921)
Non-controlling interests in Racing Integrity Unit Limited		(51)	23
		<b>(15,219)</b>	<b>(7,898)</b>

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

# NZRB INTERIM FINANCIAL STATEMENTS 2019

## CONDENSED STATEMENT OF CHANGES IN EQUITY *FOR THE SIX MONTHS ENDED 31 JANUARY 2019*

	UNAUDITED			
	Attributable to NZRB		Attributable to non-controlling interests in RIU	TOTAL GROUP EQUITY
	General reserve	Hedging reserve		
	\$000	\$000		
Balance as at 1 August 2017	69,306	(218)	220	69,308
Net loss after distributions	(8,480)	-	23	(8,457)
Other comprehensive profit	-	559	-	559
Balance as at 31 January 2018	60,826	341	243	61,410
Balance as at 1 August 2018	52,886	357	214	53,457
Net loss after distributions	(15,160)	-	(51)	(15,211)
Other comprehensive loss	-	(8)	-	(8)
Balance as at 31 January 2019	37,726	349	163	38,238

# NZRB INTERIM FINANCIAL STATEMENTS 2019

## CONDENSED STATEMENT OF FINANCIAL POSITION AS AT 31 JANUARY 2019

		UNAUDITED	AUDITED
	NOTE	31 JANUARY 2019 \$000	31 JULY 2018 \$000
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		8,116	17,701
Derivative assets		450	347
Trade and other receivables		11,078	6,563
Other financial assets	9	25,000	27,756
Other assets		7,232	8,707
<b>TOTAL CURRENT ASSETS</b>		<b>51,876</b>	<b>61,074</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		41,151	36,497
Intangible assets		43,402	29,433
Other financial assets	9	1,333	1,333
Other assets		1,297	1,732
<b>TOTAL NON-CURRENT ASSETS</b>		<b>87,183</b>	<b>68,995</b>
<b>TOTAL ASSETS</b>		<b>139,059</b>	<b>130,069</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables		32,306	28,638
Customer betting account deposits and vouchers		23,738	23,366
Liabilities from contracts with customers		3,169	3,174
Provisions		3,823	4,075
Taxation payable		6,184	3,785
Other financial liabilities		367	351
<b>TOTAL CURRENT LIABILITIES</b>		<b>69,587</b>	<b>63,389</b>
<b>NON-CURRENT LIABILITIES</b>			
Borrowings		25,000	10,000
Other financial liabilities		2,170	2,360
Provisions		4,063	863
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>31,233</b>	<b>13,223</b>
<b>TOTAL LIABILITIES</b>		<b>100,820</b>	<b>76,612</b>
<b>TOTAL EQUITY</b>		<b>38,238</b>	<b>53,457</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>139,058</b>	<b>130,069</b>

The Board members of the New Zealand Racing Board authorised these interim financial statements for issue on 28 March 2019.



**Glenda Hughes**  
Chair of the New Zealand Racing Board



**Greg McCarthy**  
Chair of the Audit and Risk Committee  
of the New Zealand Racing Board

# NZRB INTERIM FINANCIAL STATEMENTS 2019

## CONDENSED STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 31 JANUARY 2019

	UNAUDITED	
	31 JANUARY 2019 \$000	31 JANUARY 2018 \$000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>INFLOWS</b>		
Betting and gaming turnover	1,408,659	1,430,121
NZ racing shown overseas revenue	12,626	10,519
Other revenue	11,982	13,731
Jackpot retentions and account deposits (net)	605	-
<b>TOTAL INFLOWS FROM OPERATING ACTIVITIES</b>	<b>1,433,872</b>	<b>1,454,371</b>
<b>OUTFLOWS</b>		
Betting and gaming dividends paid	(1,213,934)	(1,225,123)
Betting and gaming duty paid	(12,691)	(12,659)
Goods and services tax (net)	(24,145)	(26,802)
Jackpot retentions and account deposits (net)	-	(3,097)
National sporting organisations	(5,750)	(5,110)
Payments for employee benefits including termination payments	(32,772)	(31,066)
Payments to suppliers	(63,368)	(66,611)
<b>TOTAL OUTFLOWS FROM OPERATING ACTIVITIES</b>	<b>(1,352,660)</b>	<b>(1,370,468)</b>
<b>NET CASH PROVIDED BY OPERATING FACILITIES</b>	<b>81,212</b>	<b>83,903</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
<b>INFLOWS</b>		
Interest received	884	1,030
Repayment of industry loans	2,768	249
Repayment of short-term deposits	-	15,000
<b>TOTAL INFLOWS FROM INVESTING ACTIVITIES</b>	<b>3,652</b>	<b>16,279</b>
<b>OUTFLOWS</b>		
Investment of short-term deposits	-	(3,000)
Purchases of intangible assets	(12,500)	(16,043)
Purchases of property, plant and equipment	(9,245)	(3,916)
<b>TOTAL OUTFLOWS FROM INVESTING ACTIVITIES</b>	<b>(21,745)</b>	<b>(22,959)</b>
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(18,093)</b>	<b>(6,680)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
<b>INFLOWS</b>		
Drawdown of borrowings	15,000	-
<b>TOTAL INFLOWS FROM FINANCING ACTIVITIES</b>	<b>15,000</b>	<b>-</b>
<b>OUTFLOWS</b>		
Interest paid	(107)	(138)
Distributions to the racing codes	(81,533)	(77,736)
Distributions to the racing industry (TRLRP)	(1,872)	(1,820)
Gaming distributions for racing industry costs	(2,693)	(4,151)
Gaming distribution to external bodies	(1,196)	(1,266)
Repayment of finance lease	(189)	(156)
<b>TOTAL OUTFLOWS FROM FINANCING ACTIVITIES</b>	<b>(87,590)</b>	<b>(85,267)</b>
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(72,590)</b>	<b>(85,267)</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(9,471)</b>	<b>(8,044)</b>
Cash and cash equivalents as at the beginning of the period	17,701	29,017
Foreign exchange loss on cash and cash equivalents	(114)	304
<b>CASH AND CASH EQUIVALENTS AS AT THE END OF THE PERIOD</b>	<b>8,116</b>	<b>21,277</b>



## CONDENSED NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 JANUARY 2019

The purpose of these interim condensed financial statements is to report on the financial performance for the six months ended 31 January 2019. Additionally, these financial statements report on transactions and events that are significant in gaining an understanding of the changes in financial position, performance and cashflows of NZRB since its previous year end, 31 July 2018. Accordingly, it focusses on new actions, events and circumstances and does not duplicate information previously reported in NZRB's financial statements for the year ended 31 July 2018.

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

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

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

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

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

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

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

#### 1. BASIS OF PREPARATION

##### REPORTING ENTITY AND STATUTORY BASE

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

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

##### STATEMENT OF COMPLIANCE

These unaudited consolidated interim financial statements comply with International Accounting Standards and NZ IAS 34 'Interim Financial Reporting' and do not include all the disclosures required for full annual financial statements prepared in accordance with NZ IFRS and should be read in conjunction with the financial statements and related notes included in NZRB's financial statements for the year ended 31 July 2018.

##### BASIS OF MEASUREMENT

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

##### CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 July 2018, except for the adoption of new standards effective as of 1 August 2018 discussed below. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

##### NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ISSUED

The financial statements have been drawn up on the basis of accounting standards, interpretations and amendments effective at the beginning of the accounting period on 1 August 2018.

##### NEW STANDARDS ADOPTED

The Group applied, for the first time, NZ IFRS 15, *Revenue from Contracts with Customers* and NZ IFRS 9, *Financial Instruments*. As required by NZ IAS 34, the nature and effect of any material changes arising from the initial adoption of these standards are disclosed in the following sections. All practical expedients available in the initial adoption of these standards have been used.

## CONDENSED NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 JANUARY 2019 (CONTINUED)

### 1. BASIS OF PREPARATION (CONTINUED)

#### NZ IFRS 9 Financial instruments - impact of adoption

NZ IFRS 9 *Financial Instruments* replaces NZ IAS 39 *Financial Instruments* for annual periods beginning on or after 1 August 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment, and hedge accounting.

With the exception of hedge accounting, which the Group applied prospectively, the Group has applied NZ IFRS 9 retrospectively. The Group has assessed, however, that there are no material recognition and measurement changes arising from the initial adoption of NZ IFRS 9; therefore, comparatives have not had to be restated. The new standard, however, requires certain presentational and disclosure changes which have been incorporated in these interim financial statements for the current and comparative periods reported. Details of the impact of NZ IFRS 9 are discussed in the following section.

#### Classification and measurement

NZ IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on NZRB's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. There are no changes in respect of financial liabilities.

Under NZ IFRS 9, NZRB classifies and measures its financial assets as follows:

*Financial assets at amortised costs* which relate to debt instruments that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows and meet the 'sole payment of principal and interest' (SPPI) criterion. This category includes the Group's cash and term deposits, trade receivables and industry loans.

*Financial assets at 'fair value through profit or loss' (FVPL)* comprise NZRB's derivative instruments; these are currently designated as hedging instruments and hedge accounting is applied; cumulative hedging gains and losses are recognised within equity (OCI) during the hedging period, to the extent these are effective hedges, and subsequently reported to profit or loss.

Financial assets are now presented within the notes to the financial statements based on the above categories; refer to Note 9. The following table shows the comparative presentation changes arising from the adoption of NZ IFRS 9.

	NZ IAS 39 CLASSIFICATION	NZ IFRS 9 CLASSIFICATION
Cash and cash equivalents	Loans & receivables	Financial asset at amortised cost
Derivative assets	Fair value through profit or loss	Fair value through profit or loss
Trade and other receivables	Loans & receivables	Financial asset at amortised cost
Other financial assets (Term deposits)	Held to maturity	Financial asset at amortised cost
Other financial assets (Industry loans)	Loans & receivables	Financial asset at amortised cost

#### Impairment

NZ IFRS 9 replaces the 'incurred loss model' of assessing and measuring impairment of financial assets and introduces a new expected credit loss (ECL) model applicable to NZRB's trade receivables and industry loans measured at amortised cost. The ECL model requires an assessment of a counterparty's probability of default based on actual historical data as well as current and forward-looking analysis of the counterparty's credit standing. This is applied either on a 12-month or lifetime basis.

The Group has assessed that there is no material impact in terms of recognising any additional credit losses under the ECL arising from the initial application of the new standard. This is drawn on the basis of the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. Based on these factors, the Group has no significant credit risk exposure in terms of its financial assets. This key assumption has been considered in applying the ECL model in assessing the impairment of the Group's financial assets.

#### Hedge accounting

NZ IFRS 9 did not change the key principles surrounding hedging transactions; however, it required that NZRB reflect its risk management strategy when applying and reporting hedge accounting. The Group has assessed that there are no material changes arising from the adoption of NZ IFRS 9 in respect of its hedges (foreign currency derivatives) and determined that all existing hedge relationships that are currently designated in effective hedging relationships continue to qualify for hedge accounting under NZ IFRS 9.

## CONDENSED NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 JANUARY 2019 (CONTINUED)

### 1. BASIS OF PREPARATION (CONTINUED)

#### NZ IFRS 15 Revenue from contracts with customers - impact of adoption

NZRB has adopted NZ IFRS 15 from 1 August 2018 using the modified retrospective approach. This adoption resulted in changes in accounting policies relating to the recognition, measurement, presentation and disclosure of revenue arising from contracts with customers, unless those contracts are within the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under NZ IFRS 15, 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.

Following a detailed review of NZRB's portfolio of contracts with customers, management concluded that NZ IFRS 15 has no material impact on the way in which NZRB recognises revenue. However, additional disclosure and presentation requirements have been considered to ensure comparability of financial information.

#### Process and policy

To assess the impact of NZ IFRS 15 on NZRB, contracts within each segment were aggregated to create portfolios of contracts. An individual contract from each portfolio was selected as being representative of each unique contract type. For each contract type, the five-step model was applied to assess the impact on revenue recognition.

The five-step model for recognising revenue from contracts with customers involves:

1. Identifying the contract with the customer
2. Identifying the performance obligation(s)
3. Determining the transaction price
4. Allocating the transaction price to each distinct performance obligation
5. Recognising revenue at a point in time or over time

The table below provides further information on the application of NZ IFRS 15 across the major segments of NZRB Group. The segments detailed below represent 99% of NZRB's revenue for the six months ended 31 January 2019.

#### Betting segment

REVENUE TYPE	DESCRIPTION	KEY JUDGEMENTS	OUTCOME	TIMING OF REVENUE RECOGNITION
Wagering	Wagering activity on NZ and overseas races and sporting events. This includes major betting types of fixed odds and tote betting.	<ul style="list-style-type: none"> <li>* Determine the distinct performance obligations and timing of revenue recognition for each bet type.</li> <li>* Assess impact of rebates, incentives and similar arrangements to transaction price.</li> <li>* Determining the agent versus principal relationship and how it affects revenue reporting.</li> </ul>	<ul style="list-style-type: none"> <li>* The wagering activity gives rise to one performance obligation and revenue is recognised when the performance obligation is satisfied.</li> <li>* The transaction price is adjusted to include dividends paid, rebates and incentives provided to customers.</li> <li>* NZRB is the principal for all revenue transactions including wagering on overseas races.</li> </ul>	<b>Point in time</b> Revenue is recognised when the race or sporting event is resulted.
NZ racing shown overseas	Wagering activity with overseas customers. Revenue includes commission from overseas betting agencies.	<ul style="list-style-type: none"> <li>* Determining the agent versus principal relationship and how it affects revenue reporting.</li> </ul>	<ul style="list-style-type: none"> <li>* NZRB is the agent of overseas betting agencies in relation to overseas customers betting into NZ pools.</li> </ul>	<b>Point in time</b> Commission recognised as revenue when the race or sporting event is resulted.
Other revenue	This includes racing services, merchant fees, broadcast services, advertising and sale of publications.	<ul style="list-style-type: none"> <li>* Determining the agent versus principal relationship and how it affects revenue reporting.</li> <li>* Assess the impact of variable and non-cash consideration received.</li> </ul>	<ul style="list-style-type: none"> <li>* NZRB is the principal in respect of all contracts in this category.</li> </ul>	<b>Point in time</b> NZRB's revenue under this category is predominantly recognised at a point in time, except for one broadcasting related contract which is recognised over time (i.e. over a period of one month for services rendered by NZRB in that particular month).

#### Gaming segment

REVENUE TYPE	DESCRIPTION	KEY JUDGEMENTS	OUTCOME	TIMING OF REVENUE RECOGNITION
Gaming	Revenue received in exchange for gaming products sold.	<ul style="list-style-type: none"> <li>* Determine the distinct performance obligation and the relevant transaction price.</li> </ul>	<ul style="list-style-type: none"> <li>* The gaming activity gives rise to one performance obligation.</li> <li>* The transaction price is adjusted to reflect the jackpot retentions from each transaction.</li> </ul>	<b>Point in time</b> Recognised when the round is resulted and a win/loss determined.



## CONDENSED NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 JANUARY 2019 (CONTINUED)

### 1. BASIS OF PREPARATION (CONTINUED)

#### Presentation and disclosure

The adoption of NZ IFRS 15 impacts NZRB's presentation and disclosure requirements in terms of its revenues as follows:

#### Presentation changes

The standard requires that contract assets and contract liabilities arising from contracts with customers be presented as separate line items in the face of the statement of financial position. As at the end of the period being reported, NZRB has no contract assets outstanding; receivables are accounted for and presented in the usual manner (except for the impact of NZ IFRS 9 as discussed previously).

As of the end of the reporting period, NZRB identified contract liabilities, which relate to consideration received by NZRB from customers and for which NZRB is yet to satisfy underlying performance obligations as of the end of each reporting period. These include "Unresulted turnover", "Unpaid dividends" and "Jackpot retentions".

In the previous periods, the above items were included under "Other financial liabilities"; however, consistent with NZ IFRS 15, these are now presented separately on the face of the statement of financial position under "Liabilities from contracts with customers"; the comparative financial information has been reclassified to reflect this new presentation requirements.

#### Disclosure changes

The significant disclosure changes that applies to NZRB resulting from the adoption of NZ IFRS 15 include the following:

Disclosure of key judgements used that impact the recognition of revenue from contract with customers consistent with the five step model of NZ IFRS 15; this includes areas on timing, variable consideration and manner in which performance obligations are satisfied.

Disclosure of revenues where those arising from contract with customers are shown separately from revenues from other sources; refer to Note 5.

Disclosure of disaggregation of revenue from contract customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors; in management's view, disaggregation by nature and geographical area are the relevant categorisation to satisfy this disclosure objective; refer to Note 5b for further details.

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

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

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

### How were the results of NZRB reported internally?

#### 2. UNDERLYING OPERATING PROFIT RECONCILIATION

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

The strategic initiatives undertaken in 2019 included:

**Fixed Odds Betting** - This initiative involves the development of a new fixed odds betting (FOB) platform intended to deliver and improve the betting experience for NZRB customers. The platform was implemented on 7 January 2019.

**Racefields legislation** - includes recommendations to the Government to introduce an offshore bookmaker fee for bets taken by offshore bookmakers from people in New Zealand and bets taken on domestic racing and sport. Following the release of the Messara report, the current Bill was halted and the Minister has indicated that he now intends to include Racefields as part of a broader amendment to the Racing Act. NZRB remains committed to supporting the drafting of new legislation.

**Customer & Channels Programme** - its objective is to grow customer numbers, deliver world class channels and lower the cost to deliver services to our customers. Positive results continue to be realised from this initiative during the 2018/19 year.

**Optimise the Calendar** - is set up to develop a racing calendar that promotes higher returns to the industry, as well as future-proof the venue footprint to enable more targeted, strategic investment. Approved changes to the 2018/19 Racing Calendar to optimise betting revenue continue to deliver positive results.

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

31 JANUARY 2019	Note	Reported Net Profit	Strategic Initiatives net benefits and costs	Other costs	Underlying Operating Profit
		\$000	\$000	\$000	\$000
<b>REVENUE</b>					
Net betting revenue	5d	143,200	1,748	-	141,452
Net gaming revenue	5e	14,606	-	-	14,606
NZ racing shown overseas revenue		12,624	1,724	-	10,900
Other revenue	5f	13,106	-	-	13,106
<b>TOTAL REVENUE</b>		<b>183,536</b>	<b>3,472</b>	<b>-</b>	<b>180,064</b>
<b>TURNOVER RELATED EXPENSES</b>	6	<b>35,388</b>	<b>1,516</b>	<b>-</b>	<b>33,872</b>
<b>OPERATING EXPENSES</b>					
Broadcasting expenses		4,529	-	-	4,529
Communication and technology expenses	7a	12,833	2,426	16	10,391
Premises and equipment expenses	7b	7,230	3	-	7,227
Staff expenses	7c	32,217	1,750	500	29,967
Depreciation and amortisation		8,227	1,675	-	6,552
Foreign exchange gain		127	-	-	127
Other operating expenses	7d	6,803	139	(26)	6,690
<b>TOTAL OPERATING EXPENSES</b>		<b>71,966</b>	<b>5,993</b>	<b>490</b>	<b>65,483</b>
<b>TOTAL EXPENSES</b>		<b>107,354</b>	<b>7,509</b>	<b>490</b>	<b>99,355</b>
<b>UNDERLYING OPERATING PROFIT/ (LOSS) BEFORE DISTRIBUTIONS</b>		<b>76,182</b>	<b>(4,037)</b>	<b>(490)</b>	<b>80,709</b>

# NZRB INTERIM FINANCIAL STATEMENTS 2019

## CONDENSED NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 JANUARY 2019 (CONTINUED)

### 2. UNDERLYING OPERATING PROFIT RECONCILIATION (CONTINUED)

31 JANUARY 2019	Note	Reported Net Profit \$000	Strategic Initiatives net benefits and costs \$000	Other costs \$000	Underlying Operating Profit \$000
<b>REVENUE</b>					
Net betting revenue	5d	151,057	1,800	-	149,257
Net gaming revenue	5e	13,298	-	-	13,298
NZ racing shown overseas revenue		11,146	-	-	11,146
Other revenue	5f	12,584	-	-	12,584
<b>TOTAL REVENUE</b>		<b>188,085</b>	<b>1,800</b>	<b>-</b>	<b>186,285</b>
<b>TURNOVER RELATED EXPENSES</b>	6	<b>36,259</b>	<b>1,822</b>	<b>-</b>	<b>34,437</b>
<b>OPERATING EXPENSES</b>					
Broadcasting expenses		4,718	-	-	4,718
Communication and technology expenses	7a	10,303	812	-	9,491
Premises and equipment expenses	7b	7,442	125	-	7,317
Staff expenses	7c	31,780	1,253	-	30,527
Depreciation and amortisation		10,334	1,926	-	8,408
Foreign exchange gain		24	-	-	24
Other operating expenses	7d	8,216	300	-	7,916
<b>TOTAL OPERATING EXPENSES</b>		<b>72,817</b>	<b>4,416</b>	<b>-</b>	<b>68,401</b>
<b>TOTAL EXPENSES</b>		<b>109,076</b>	<b>6,238</b>	<b>-</b>	<b>102,838</b>
<b>UNDERLYING OPERATING PROFIT/ (LOSS) BEFORE DISTRIBUTIONS</b>		<b>79,009</b>	<b>(4,438)</b>	<b>-</b>	<b>83,447</b>

# NZRB INTERIM FINANCIAL STATEMENTS 2019

## CONDENSED NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 JANUARY 2019 (CONTINUED)

### 3. OPERATING SEGMENTS

The following is an analysis of the Group's profit by reportable segments. There have been no changes in the nature of operating segments since 31 July 2018.

	UNAUDITED			
	Betting	Gaming	RIU	Total
	\$000	\$000	\$000	\$000
<b>31 JANUARY 2019</b>				
<b>NET PROFIT BEFORE DISTRIBUTIONS</b>	67,877	11,702	(3,397)	76,182
Less distributions	(83,020)	(6,927)	3,329	(86,618)
Less provision for undistributed Gaming net profit	-	(4,775)	-	(4,775)
<b>NET LOSS AFTER DISTRIBUTIONS</b>	<b>(15,143)</b>	<b>-</b>	<b>(68)</b>	<b>(15,211)</b>
	UNAUDITED			
	Betting	Gaming	RIU	Total
	\$000	\$000	\$000	\$000
<b>31 JANUARY 2018</b>				
<b>NET PROFIT BEFORE DISTRIBUTIONS</b>	73,312	8,806	(3,109)	79,009
Less distributions	(81,800)	(6,138)	3,140	(84,798)
Less provision for undistributed Gaming net profit	-	(2,668)	-	(2,668)
<b>NET (LOSS)/PROFIT AFTER DISTRIBUTIONS</b>	<b>(8,488)</b>	<b>-</b>	<b>31</b>	<b>(8,457)</b>



# NZRB INTERIM FINANCIAL STATEMENTS 2019

## CONDENSED NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 JANUARY 2019 (CONTINUED)

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

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

#### 4. DISTRIBUTIONS

31 JANUARY 2019	UNAUDITED			TOTAL \$000
	Betting	Gaming	Undistributed Gaming net profit from 31 July 2018	
	\$000	\$000	\$000	
<b>DISTRIBUTIONS TO THE RACING INDUSTRY</b>				
Code funding	81,149	-	-	81,149
Judicial Control Authority	-	460	230	690
Racing Integrity Unit	-	2,223	1,106	3,329
Racing Laboratory Services	-	793	160	953
The Races Limited Partnership	1,871	379	76	2,326
Other application of funds from Gaming operations				
Broadcasting and Trackside Radio	-	317	-	317
Infrastructure development	-	137	33	170
Stakes enhancement	-	880	-	880
Race form publications	-	516	120	636
Youth recruitment	-	46	11	57
<b>TOTAL DISTRIBUTIONS TO THE RACING INDUSTRY</b>	<b>83,020</b>	<b>5,751</b>	<b>1,736</b>	<b>90,507</b>
<b>Distributions (grants) to Sporting Community Organisations</b>				
Sports Authorised Purposes (paid and payable)	-	1,176	20	1,196
<b>TOTAL DISTRIBUTIONS (GRANTS) TO SPORTING COMMUNITY ORGANISATIONS</b>	<b>-</b>	<b>1,176</b>	<b>20</b>	<b>1,196</b>
Reversal of prior year provision for undistributed net profit	-	-	(1,756)	(1,756)
<b>TOTAL DISTRIBUTIONS FROM NZRB PARENT</b>	<b>83,020</b>	<b>6,927</b>	<b>-</b>	<b>89,947</b>
Distributions to RIU - eliminated on consolidation	-	(3,329)	-	(3,329)
<b>TOTAL DISTRIBUTIONS FROM GROUP</b>	<b>83,020</b>	<b>3,598</b>	<b>-</b>	<b>86,618</b>

\* The undistributed gaming surplus from 2017/18 of \$3,256 consists of \$1,756 allocated to 2018/19 gaming distributions as detailed above and \$1,500 accumulated for infrastructure projects reported under non-current provisions in the Statement of Financial Position.

# NZRB INTERIM FINANCIAL STATEMENTS 2019

## CONDENSED NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 JANUARY 2019 (CONTINUED)

### 4. DISTRIBUTIONS (CONTINUED)

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

# NZRB INTERIM FINANCIAL STATEMENTS 2019

## CONDENSED NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 JANUARY 2019 (CONTINUED)

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

#### 5. REVENUE

NZRB's total revenue shown in the Statement of Profit or Loss and Other Comprehensive Income arise from contracts with customers covered under NZ IFRS 15 and from other sources covered under various other standards as follows:

		UNAUDITED	
		31 JANUARY 2019 \$000	31 JANUARY 2018 \$000
<b>5a. Revenue</b>			
<b>Revenue from contracts with customers</b>			
Net Betting Revenue	5d.	143,200	151,057
Net Gaming Revenue	5e.	14,606	13,298
NZ racing shown overseas revenue		12,624	11,146
Other revenue	5d.	12,153	11,448
		182,583	186,949
<b>Revenue / Income from other sources</b>			
Finance income		608	730
Rental income		440	432
Loss on disposal of PPE and intangibles		(95)	(26)
	5f.	953	1,136
<b>TOTAL REVENUE</b>		<b>183,536</b>	<b>188,085</b>

#### 5b. DISAGGREGATION OF REVENUE FROM CONTRACTS WITH CUSTOMERS

The following table discloses NZRB's contracts with customers disaggregated based on their nature and sources that appropriately depict how those revenues and their associated cash flows are impacted by economic factors; these categories of disaggregation broadly reflect how NZRB evaluates its performance and resource allocation decisions.

##### Geographical area and Nature

31 January 2019	Betting	Gaming	Other (Sale of services)	Total
New Zealand	143,200	14,606	12,153	169,959
Overseas	12,624	-	-	12,624
	<b>155,824</b>	<b>14,606</b>	<b>12,153</b>	<b>182,583</b>
31 January 2018	Betting	Gaming	Other (Sale of services)	Total
New Zealand	151,057	13,298	11,448	175,803
Overseas	11,146	-	-	11,146
	<b>162,203</b>	<b>13,298</b>	<b>11,448</b>	<b>186,949</b>

# NZRB INTERIM FINANCIAL STATEMENTS 2019

## CONDENSED NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 JANUARY 2019 (CONTINUED)

### 5. REVENUE (CONTINUED)

#### 5c. TURNOVER (including GST)

Betting turnover - racing totalisator

Betting turnover - racing fixed odds

**Total betting turnover - racing**

Betting turnover - sports fixed odds

**Total betting turnover - sports**

**Total betting turnover**

**Gaming turnover**

**TOTAL BETTING AND GAMING TURNOVER**

#### 5d. NET BETTING REVENUE

Total betting turnover

Less: dividends paid and payable

Gross betting revenue

Betting duty

GST

Problem gambling levy

**NET BETTING REVENUE**

#### 5e. NET GAMING REVENUE

Gaming turnover

Less: dividends paid and payable

Gross gaming revenue

Gaming machine duty

GST

Problem gambling levy

**NET GAMING REVENUE**

#### 5f. OTHER REVENUE

Merchant fee revenue

Racing services

Revenue from broadcasting within New Zealand

Other revenue

**TOTAL OTHER REVENUE**

UNAUDITED	
31 JANUARY 2019 \$000	31 JANUARY 2018 \$000
495,383	519,033
370,620	374,388
866,003	893,421
286,279	301,590
286,279	301,590
<b>1,152,282</b>	<b>1,195,011</b>
<b>257,731</b>	<b>235,026</b>
<b>1,410,013</b>	<b>1,430,037</b>
1,152,282	1,195,011
(978,685)	(1,010,912)
173,597	184,099
(6,675)	(7,298)
(22,829)	(24,783)
(893)	(961)
<b>143,200</b>	<b>151,057</b>
257,731	235,026
(235,484)	(214,771)
22,247	20,255
(4,449)	(4,051)
(2,902)	(2,642)
(290)	(264)
<b>14,606</b>	<b>13,298</b>

UNAUDITED	
31 JANUARY 2019 \$000	31 JANUARY 2018 \$000
2,411	2,220
7,503	7,224
475	440
2,717	2,700
<b>13,106</b>	<b>12,584</b>



# NZRB INTERIM FINANCIAL STATEMENTS 2019

## CONDENSED NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 JANUARY 2019 (CONTINUED)

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

#### 6. TURNOVER RELATED EXPENSES

UNAUDITED	
31 JANUARY 2019 \$000	31 JANUARY 2018 \$000
Advertising and promotions*	4,740
Commingling fee	872
National sporting organisations	4,389
Overseas racing rights	14,881
Race form publications	1,111
Less: race form publications recovered from Gaming**	(636)
Retail fees	7,958
Other turnover related expenses	2,073
<b>TOTAL TURNOVER RELATED EXPENSES</b>	<b>35,388</b>

\* Included within the 2019 turnover related expenses was \$1.5 million in relation to the strategic initiatives (2018: \$1.8 million). Refer to Note 2.

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

#### 7. OPERATING EXPENSES

##### 7a. COMMUNICATION AND TECHNOLOGY EXPENSES

Communication and technology expenses include the IT managed service agreement relating to the Optimus programme of \$8.0 million (2018: \$6.3 million) and software licence fees which in part relate to the new Fixed Odds Betting platform of \$1.5 million (2018: \$1.0 million).

##### 7b. PREMISES AND EQUIPMENT EXPENSES

UNAUDITED	
31 JANUARY 2019 \$000	31 JANUARY 2018 \$000
Rent	3,624
Repairs and maintenance	1,224
Other premises and equipment expenses	2,382
<b>TOTAL PREMISES AND EQUIPMENT EXPENSES</b>	<b>7,230</b>

There were no expenses in relation to the strategic initiatives included within premises and equipment in 2019 (2018: \$0.1 million). Refer to Note 2.

##### 7c. STAFF EXPENSES

UNAUDITED	
31 JANUARY 2019 \$000	31 JANUARY 2018 \$000
Salaries and wages (including contractors)	29,482
Termination payments	349
Other staff expenses	2,386
<b>TOTAL STAFF EXPENSES</b>	<b>32,217</b>

Included within the 2019 staff expenses was \$1.8 million in relation to the strategic initiatives (2018: \$1.3 million). Refer to Note 2.

# NZRB INTERIM FINANCIAL STATEMENTS 2019

## CONDENSED NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 JANUARY 2019 (CONTINUED)

### 7. OPERATING EXPENSES (CONTINUED)

#### 7d. OTHER OPERATING EXPENSES

UNAUDITED	
31 JANUARY 2019 \$000	31 JANUARY 2018 \$000
Auditors remuneration	
- Audit and review services	86
- Taxation compliance services	93
- Other services <sup>1</sup>	6
Board members	20
Consultancy	5
Impairment	173
Interest	197
Legal	619
Merchant	(2)
Printing and stationery	45
RIU swabbing costs	108
Travel and accommodation	137
Other operating expenses <sup>2</sup>	122
<b>TOTAL OTHER OPERATING EXPENSES</b>	<b>150</b>
	<b>2,299</b>
	<b>2,330</b>
	<b>135</b>
	<b>150</b>
	<b>724</b>
	<b>704</b>
	<b>1,492</b>
	<b>1,568</b>
	<b>1,021</b>
	<b>1,378</b>
	<b>6,803</b>
	<b>8,216</b>

<sup>1</sup> Other services relate to the yearly review of the gaming financial statements and forecast information for Class 4 relicensing purposes. Included as part of the audit and review services are fees for the non-recurring audit of the transition to the new accounting standards NZ IFRS 9 and NZ IFRS 15.

<sup>2</sup> Included within the 2019 other operating expenses was \$0.1 million in relation to the strategic initiatives (2018: \$0.3 million). Refer to Note 2.

### 8. RELATED PARTIES

There have been no significant changes to the related parties or transactions with related parties since 31 July 2018.

### Other

#### 9. OTHER FINANCIAL ASSETS

	UNAUDITED	AUDITED
	31 JANUARY 2019 \$000	31 JULY 2018 \$000
Industry loans - RACE Inc	-	2,756
Industry loans - The Races Limited Partnership	1,248	1,248
Term deposits - Betting Accounts and Vouchers Trust	25,000	25,000
Other	85	85
<b>TOTAL OTHER OPERATING ASSETS</b>	<b>26,333</b>	<b>29,089</b>
Disclosed as:		
Current	25,000	27,756
Non-current	1,333	1,333
<b>TOTAL OTHER OPERATING ASSETS</b>	<b>26,333</b>	<b>29,089</b>

The above items are classified as financial assets at amortised cost.

Betting Accounts and Betting Vouchers Trust short-term deposits are funds held in trust to cover the balance of customer betting accounts deposits and vouchers liability. The short-term deposit of \$25.0 million and \$1.3 million included in the cash and cash equivalents balance is held to cover the total owed to customers of betting account deposits and vouchers liability of \$23.7 million. The deposits and cash balance held in trust are not available for use by NZRB in the ordinary course of business up to the value of the betting deposits and vouchers liability.

#### FINANCIAL RISK MANAGEMENT

In the normal course of business, NZRB is exposed to a variety of financial risks. The Treasury function co-ordinates the investment of cash, surplus to current operational requirements, as well as monitoring and managing all financial risks relating to the operations of NZRB. The financial risk is made up of liquidity risk, credit risk, foreign exchange rate risk and interest rate risk.

As NZRB's revenues are principally transactions involving immediate cash receipts, short-term liquidity is covered by trading receipts and highly liquid bank deposits. NZRB manages longer dated liquidity risk by maintaining adequate cash reserves of liquid short-term deposits to satisfy anticipated capital expenditure and distribution requirements. In addition, NZRB manages this risk by ensuring sufficient access to committed facilities, continuous cash flow and working capital monitoring and maintaining prudent levels of short-term debt levels and maturities consistent with its written Treasury policies. At balance date, NZRB had available (undrawn) \$10 million under its rolling credit bank facility.

NZRB's working capital (net current liabilities) position as at balance date is -\$17.7 million. The liquidity risk arising from this position is consistent with management expectations and is managed by NZRB in accordance with its Treasury policy. Specifically, the NZRB has undrawn banking facilities of \$10 million available to it; in addition, NZRB's current liabilities also have longer expected due dates than its current assets. As such, the NZRB is able to meet its obligations as they fall due through the generation of operating cash flows.

#### 10. SUBSEQUENT EVENTS

There are no material subsequent events as at 31 January 2019 that impact these financial statements.