

NEW ZEALAND
RACING BOARD



ANNUAL REPORT | 2017 2018





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

TAB ^{TAB}**trackside**

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2017 HIGHLIGHTS



SUPPORTING NEW ZEALAND RACING
DISTRIBUTIONS TO THE THREE RACING CODES WERE \$137.6 MILLION AND \$11.5 MILLION IN FUNDING WAS APPLIED TO THE RACING INDUSTRY FROM GAMING



SUPPORTING NEW ZEALAND SPORT
COMMISSION PAYMENTS OF \$9.3 MILLION WERE MADE TO 34 NATIONAL SPORTING ORGANISATIONS AND \$3.2 MILLION IN GAMING GRANTS MADE TO COMMUNITY SPORTING ORGANISATIONS

THREE INDUSTRY ENHANCEMENT FUNDS WERE LAUNCHED DURING THE YEAR, TARGETING STAKES, INFRASTRUCTURE AND YOUTH DEVELOPMENT, WITH \$4.8 MILLION OF FUNDING AVAILABLE THROUGH TO 2018/19

NZRB is partnering with world and national leaders in their industries including Tabcorp, Openbet, Paddy Power Betfair, and Spark

NZRB successfully completes Optimus programme - its largest technology project for 30 years!

REPOSITIONED THE TAB BRAND WITH A SUCCESSFUL FIRST CAMPAIGN LAUNCH FOR THE BRITISH AND IRISH LIONS TOUR GAINING 16,765 NEW BETTORS

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



The Racing Amendment Bill was drafted, and passed its first reading in the House in August 2017

Underlying operating profit before distributions was \$148.0 million, up \$3.3 million (2.3%) on last year

NZRB Board committed to additional funding for stakes of \$12 million in 2017/18 and again in 2018/19 subject to Board approval

REVISED RACING CALENDAR TO PROVIDE \$3 MILLION IN ECONOMIC BENEFITS TO NZ RACING IN 2017/18

ABOUT THE NEW ZEALAND RACING BOARD

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

NZRB operates the country's official racing and sports betting agency, the TAB. The TAB is a major entertainment business with more than 190,000 TAB account-holders placing a bet this year, and a retail network consisting of 680 outlets. Every bet placed with the TAB makes an integral contribution to the growth of racing and sport in New Zealand and the livelihoods of the many thousands of Kiwis involved in the racing and sport sectors.

NZRB has a proud legacy stretching back to 1951 when the Totalisator Agency Board (TAB) was established as the sole betting operator in New Zealand, and the first off-course totalisator service in the world. Throughout that decade the TAB became the fastest growing business in New Zealand's history.

NZRB supports betting on more than 79,000 domestic and imported thoroughbred, harness and greyhound races each season, as well as on approximately 36,000 domestic and international sporting events. It has betting agreements with 34 New Zealand national sporting organisations.

NZRB continues to develop its gaming operation, having held a Class 4 Operator's Licence since 2011. Currently 43 of our 78 TAB Board venues host NZRB gaming machines. It is estimated NZRB operates around 3.6% of the total number of Class 4 venues and around 3.0% of the total number of gaming machines in the New Zealand market. Net proceeds from the gaming operation are split with at least 80% funding racing authorised purposes (racing integrity measures such as the Racing Integrity Unit, Judicial Control Authority and NZ Racing Laboratory Services; racing promotional costs such as race form, race calendar and Event Marketing & Logistics costs; and racing enhancement costs for youth retention, infrastructure and stakes), and up to 20% distributed to communities across New Zealand through amateur sporting organisations.

NZRB directly employs around 835 personnel (full-time, part-time and casual), with the majority of these people involved in the various facets that make up the TAB operation – scheduling daily racing for customers in New Zealand, selling racing and sports bets through the retail network, online and telephony channels, or the broadcast of racing on TAB Trackside 1, TAB Trackside 2, and TAB Trackside Radio.

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

NZRB also makes a significant contribution to the development of sports in New Zealand through the commission we pay to national sporting organisations for sports on which we take bets.

OUR VISION, MISSION, PURPOSE AND STRATEGY



OUR VISION

To secure the future of our industry, and position it as one of New Zealand's great success stories



OUR PURPOSE

To deliver a thrilling betting, racing and sports experience that all Kiwis can get involved in and be proud of



OUR MISSION

To enhance Kiwis' involvement and enjoyment of racing and sport



OUR STRATEGY

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

INTRODUCTION FROM THE BOARD AND CEO

In the 2016 Statement of Intent, the New Zealand Racing Board (NZRB) outlined our plans to drive the industry forward and, ultimately, provide significantly improved funding to enhance participation and investment in New Zealand racing and sports. With this pathway laid out, the 2016/17 year has been one of action and focused delivery.

DELIVERING RESULTS

We are delivering on our financial commitments. Underlying operating profit before distributions was \$148.0⁽¹⁾ million, up \$3.3 million (2.3%) on last year. Distributions to the three racing codes was \$137.6 million, an increase of \$2.3 million on last year (including \$1.4 million of incremental net profit from 2015/16 distributed this financial year). Commission payments of \$9.3 million were made to 34 national sporting organisations, an increase of 16.1% on 2015/16, and our gaming activities have delivered \$11.5 million in funding applied to the racing industry and \$3.2 million in grants to community sporting organisations, up 6.2% on last year.

This represents a strong financial result despite challenges including significantly higher levels of domestic race abandonments, the impact of new international wagering agreements with Tabcorp, ongoing changes in customer preferences towards digital platforms as well as a competitive and volatile market environment. Such a result was only possible due to a focus on customer growth, improvements in margin management and disciplined cost management which continue to be at the forefront.

We have also made significant progress advancing the series of strategic initiatives outlined in the Statement of Intent. The first of these relates to the successful implementation of the Optimus programme, the largest technology project undertaken by NZRB for 30 years, providing significantly improved disaster recovery and business continuity safeguards. We have delivered a number of Customer and Channels initiatives which has seen the total number of account customers betting with us during the year reach a new record of 192,200, up 6.7% on last year.

We have secured a new strategic partnership with major international wagering operators, Openbet and Paddy Power Betfair, to provide greater scale and lift our competitiveness in the fixed odds betting (FOB) markets internationally. We have implemented changes to the 2017/18 racing calendar which aim to optimise betting turnover and will provide \$3 million in economic benefits to the industry over the next season. Racefields legislation has also been introduced into Parliament under the Racing Amendment Bill for its first reading, receiving very strong support from the main political parties.

There are costs associated with delivering these key strategic initiatives, and we have been upfront about what these will be. Progressing our key strategic initiatives in 2016/17 has resulted in costs of \$4.6 million. This investment combined with one-off gains resulting from property sales, has resulted in net profit before distributions of \$144.0 million, which is consistent with our expectations and was \$2.7 million (-1.9%) below last year. The investment in strategic initiatives together with the additional \$1.4 million of distributions from 2015/16 year resulted in a net loss after distributions of \$3.8 million, a main driver of the reduction in the 2016/17 equity. The coming year will see this investment increase as we undertake the most significant and intense work across FOB and Customer and Channels to deliver these initiatives. But the end result will be a significant, ongoing, lift to annualised net profit to the vicinity of \$200 million per year.

While we are pleased with these results, it hasn't all been plain sailing. The impacts to betting turnover and revenue from the reduction in VIP customer betting, race abandonments and the loss of some high staking Elite customers demonstrate that we must remain focused, vigilant and resolute.

(1) For more detail, the reconciliation between the reported net profit before distributions and the underlying operating profit is found in Note 3 of the Financial Statements on page 47.

A smiling man with a beard is holding a rugby ball. The image is overlaid with a semi-transparent blue box containing text on the left and a large white text graphic on the right.

NOW YOU'RE IN THE GAME WITH THE TAB

As part of the Customer and Channels strategic key initiative, in-depth customer insights work highlighted the fact that the TAB brand was perceived by many Kiwis as 'impenetrable, blokey, tired and old fashioned', lacking mainstream appeal, and in urgent need of a refresh.

The TAB team set about creating a campaign to evolve the brand, inspire new punters, and drive youth, energy, and investment into the industry. They looked to reposition the TAB brand more generally to broaden our appeal to the wider NZ public, and utilise the British and Irish Lions tour and its large audiences by running customer acquisition campaign to drive an immediate uplift in customer numbers.

The result was the 'Now you're in the game' campaign - a modern, engaging campaign that brought to life everyday Kiwis having remarkable racing and sporting success, just by placing a bet with the TAB.

"The TAB has a proud history of delivering excitement to Kiwi punters by enabling them to have some skin in the game. Yet customer preferences are changing with the migration to digital channels and to fixed odds and in-play sports betting," commented Simon Jarvis, Head of Strategic Marketing. "We felt it was the right time to reposition the TAB brand to broaden our mainstream appeal for a modern Kiwi audience and to set ourselves up for future growth."

With the multi-channel campaign engaging customers through mainstream TV commercials, radio, outdoor billboards, social media, and digital ads across New Zealand's most popular websites, the 'Now you're in the game' campaign delivered a range of strong results, including:

- 16,765 first time bettors - up 12% on target and a new business record (11,245 was the record established during the 2011 domestic Rugby World Cup)
- 66,476 active account bettors - up 11% on target
- \$11.6 million betting turnover - up 29% on target.

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

INTRODUCTION FROM THE BOARD AND CEO (CONTINUED)

DELIVERING FOR NEW ZEALAND RACING

We are delivering on our commitment to increase support to the industry. In January 2017, we introduced the Industry Enhancement Funds, applying an additional \$4.8 million of gaming money over two and half years to improve stakes, address aging infrastructure and encourage more young people to our industry.

We've been pleased to see the codes responding, with Harness New Zealand utilising the enhancement funds to introduce \$1,500 maiden winner bonuses and subsidising licence fees and training equipment for participants under 30 year of age, in conjunction with New Zealand Thoroughbred Racing that has introduced \$10,000 minimum stakes for maidens. We are pleased to see further utilisation of these funds by the industry coming through in the current financial year including infrastructure funding to support racing.

In April 2017, our Board announced a further initiative to enhance participation in racing, delivering some of the future funding increase from our strategic initiatives early, by providing an additional \$12 million to be applied to stakes in the 2017/18 season and again in 2018/19 subject to Board approval - the largest increase in stakes in the last ten years.

The Board did not make the decision to bring this funding forward lightly, however we are confident that the key strategic initiatives being progressed by NZRB will deliver a significant uplift in distributable profit and as such we have recognised the needs of the industry for more funding right now.

DELIVERING A FUTURE FOR THE INDUSTRY WITH THE INDUSTRY

We are delivering change that will help build a long-term sustainable future for New Zealand racing. NZRB's key strategic initiatives will ensure a welcome increase in profit and, in turn, distributions, providing a much-needed cash injection into the industry, but this is just one of the ways we can support our industry as we face into the challenges of remaining relevant, and achieving success in a rapidly changing world.

To do this, we must work together, which is why NZRB is partnering with the three racing codes to work with the wider industry to address some of the most pressing industry issues, particularly those relating to infrastructure and the oncourse experience. More broadly, we will also be looking at how we can support the codes to increase ownership, lift foal crops, and drive value from our racing product both here in New Zealand and overseas.

We need to be open, honest and look hard at where we as an industry can adapt. There will be some tough decisions made. Not everyone will be happy with the outcomes. And it will mean putting the collective future of the entire industry ahead of individual interests.

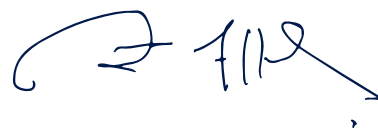
But we are an industry full of passionate, dedicated and talented people. While the challenges we face are significant, we have no doubt that we have the people with the capability and initiative to face in to these challenges and take New Zealand racing forward into a successful future. We look forward to delivering this together.



Glenda Hughes

Chair

New Zealand Racing Board



John Allen

Chief Executive Officer

New Zealand Racing Board



YOUTH ENHANCEMENT FUND SUPPORTS NEXT GENERATION OF RACING

In January 2017, NZRB announced it would provide an additional \$4.8 million in funding to support the racing industry at a grassroots level, to improve stakes, address aging infrastructure and encourage the entry of young people into racing. The Youth Development Fund consists of over \$645,000 available over the two and a half years, to aid the development of career paths into and through the racing industry.

Harness Racing New Zealand (HRNZ) are using the funding to subsidise licence fees and protective equipment for training participants under 30 year of age. Six new junior drivers have been licensed for the new season, and a range of young drivers have used the funding to take out their trainers licence, with two of them already having early success. The subsidies have afforded these young trainers and drivers a great opportunity in the sport, and a huge amount of publicity amongst their peers to go with it.

"This is a great way to encourage young people into the industry," commented young driver Olivia Thornley. "Money is always an issue for us young ones and with this offer it cuts the worry out."

John Coulam, Chair of the HRNZ Youth Council Sub-Committee can see a clear benefit to the funding. "By providing safety equipment and subsidising licence fees we are making a tangible difference in those participants who are aged 30 and under," he observes. "The beginning of their career in harness racing can be an expensive time as they purchase the essential gear that comes with being a new licence holder. Both of these initiatives make harness racing a far more attractive industry to those youth looking to enter it."

New Zealand Thoroughbred Racing have also requested funding to purchase riding simulators for their apprentice academies across the country, as well protective equipment and licences for trainers under 30. Another exciting development is funding for 'Ride to Time', a programme that will educate riders at pony and equestrian clubs across the country on racing awareness, speed control and rhythm, leading to safer riding at cross country eventing and trackwork. This program will be vital to bringing young people into the racing from the wider equestrian industry.



NZRB BUSINESS UPDATE

BUSINESS PERFORMANCE UPDATE

NZRB's underlying operating profit provides a comparable year-on-year indication of how the core business of NZRB is tracking as it separates out the one-off impacts of gains on sale of buildings and the costs associated with delivering our key strategic initiatives, which are outside of our regular operations and are designed to provide specific point in time significant lifts in profit.

NZRB's operating performance over 2016/17 has been strong, with underlying operating profit growing by \$3.3 million (2.3%) this year to \$148.0 million. We have faced a number of challenges this year, which have had an impact on betting turnover and revenue, both of which are down on last year by \$25.5 million (1.1%) and \$3.5 million (1.3%) respectively. However, our overall net betting margins have remained steady at 12.4% with an underlying improvement in product margins, particularly in racing FOB, up 1.1 percentage points to 14.4%, that was offset by lower VIP contribution.

There was a reduction in betting turnover from VIPs who are no longer able to bet into commingled Australian pools with us as a result of the new Tabcorp agreements, though the impact of this was offset by a lift in VIP betting into our NZ hosted pools. Betting turnover excluding VIPs increased by \$5.0 million, despite the lack of major international sporting tournaments or events other than the British and Irish Lions tour, compared to 2015/16 where we had both the Rugby and Cricket World Cups boosting turnover.

The industry experienced an abnormally high number of abandonments this season, which saw 36 meetings impacted over 34 days, largely in the thoroughbred code, significantly higher than the previous ten years' average of nine per season. We were able to mitigate some of the impact of these abandonments through rescheduling of alternative overseas racing, however this still resulted in \$2.3 million of potential net profit lost to the industry.

Our gaming business performed strongly, with gaming turnover up \$32.9 million (8.2%) to \$436.3 million, and gaming revenue up \$1.6 million (6.9%) on last year following continued investment in new and existing venues, including gaming conversions and refurbishments. Two new venues were opened during the year, and one was closed.

SUCCESSFULLY CONTROLLING COSTS

NZRB has continued to ensure costs are strictly controlled, particularly operating expenses and the staff costs within those. As a result of this focus, the underlying operating expenses to run our core business decreased by \$5.1 million (3.7%) in 2016/17 and are \$3.6 million below budget, with underlying staff costs decreasing by \$4.4 million (6.6%) year-on-year and \$1.6 million below budget.

Including the additional costs associated with the key strategic initiatives, reported operating expenses for this year are down \$2.5 million (1.8%) on last year and \$1.0 million under budget, while staff costs have reduced by \$3.1 million or 4.7% year on year, and will continue to be actively controlled.

Lower staff costs were driven through a number of initiatives. Some of these were undertaken in 2015/16 but saw the full impact during 2016/17 such as restructuring activities designed to achieve long-term cost savings (e.g. the closure of Phonebet) and the removal of the senior leaders bonus scheme. This was coupled with active management of staff vacancies, reviews of supplier contracts for efficiencies and savings, and holding salaries flat for anyone earning over \$75,000 last year. We've also driven savings in other areas such as broadcasting (\$0.3 million), premises and equipment (\$0.1 million) and consultancy expenditure (\$0.3 million).

This overall decrease in operating expenses was achieved while increasing investment in health and safety programmes and technology platforms that largely relates to the new managed services model introduced as part of the Optimus programme - this programme has also avoided significant capital expenditure due to the removal of certain technology replacement and maintenance costs.

NZRB BUSINESS UPDATE (CONTINUED)

KEY STRATEGIC INITIATIVES AND MAJOR PROJECTS

Our key strategic initiatives will, once fully implemented, increase annualised net profit to close to \$200 million. This is a significant lift in net profit over a relatively short period of time, and we have rigorously tested our strategic options and received an independent assessment confirming both their deliverability and expected value.

As noted in our underlying business performance, we are separating out costs relating specifically to the delivery of our key strategic initiatives from our core business expenses. As well as providing a more accurate year-on-year comparison of underlying performance, this enables us to transparently show how much we are investing in these strategic initiatives.

In 2016/17, \$4.6 million was invested in our key strategic initiatives. This included \$2.0 million of turnover related expenses, relating specifically to the TAB brand repositioning and marketing campaign platforms as part of our Customer and Channels initiative, and \$1.3 million in staff expenses related to the key initiatives more broadly.

OPTIMUS PROGRAMME

The Optimus programme was officially completed in May 2017, following the final migration of our data centre to a cloud-based system. The successful completion of this programme, the largest technology project undertaken by NZRB/TAB in 30 years, is a tangible demonstration of NZRB's ability to deliver its strategic projects.

Optimus was initiated to address our key IT infrastructure issues and reduce costs in the long term by leveraging our partnership with Spark. We also took the opportunity to completely modernise some of our IT systems and processes, and enhanced the way we work by moving our people from Microsoft to Google in early 2016.

Major activities for the programme over the year was the movement of NZRB's servers and business operating systems including Jetbet and TechnologyOne to the cloud. The move gives NZRB much needed resilience and business continuity measures, reducing the risk to operations should a major incident affect our IT platforms.

OFFSHORE BETTING ('RACEFIELDS')

The 2016/17 year has marked a major milestone in the process of introducing important 'racefields' legislation which will see international bookmakers paying a fee for bets taken on New Zealand product or for taking bets from New Zealanders, which will in turn be returned to our industry. We estimate the new legislation will bring an additional \$4.9 million in annualised net profit in 2017/18, rising to \$8.9 million in 2018/19, and to \$11.9 million for 2019/20.

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 on 15 August during the final sitting week before the election. The Bill received broad cross-party support and has been referred to the Primary Production Committee and is a positive step in the process towards having the new legislation in place during the 2017/18 year.

The proposed amendment will mean 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. Additional 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 great number of sporting events for betting options.

NZRB BUSINESS UPDATE (CONTINUED)

CUSTOMER AND CHANNELS

The Customer and Channels programme is focused on delivering an additional \$17 million of value by driving greater acquisition of new customers (first time bettors and increasing active customers), keeping customers activated by offering them vastly enhanced channel experiences (which will drive increased bet count and value) and by lowering our costs to serve.

In May 2017, we launched a repositioned TAB brand designed to have wider mainstream appeal and to shift public perception of the TAB and betting. The first targeted campaign for the new brand position was centred on the British and Irish Lions tour. Targets for the two-month period covering the brand launch and Lions tour campaign included 15,000 first time bettors, over 60,000 active account bettors on the Lions tour, and over \$9 million betting turnover on the Lions Series - all of which were exceeded.

Over the past year, we have introduced several major customer experience improvements such as an online identity verification tool, a new online portal for our Elite customers, and a number of updates with improved functionality to our TAB Mobile App including a homepage redesign, menu redesign, dedicated racing and sports zones and a shortcut bar to the new zones from the homepage. We have introduced a new prototype for our TAB branch and pub sites, which have been favourably received and led to improved sales at these sites. And our new 'Now You're In the Game' TAB marketing brand, introduced first with a campaign around the British Lions tour in June/July 2017 exceeded all of the targets set for first time bettors, active account bettors and betting turnover.

A trial new concept based TAB store was opened in Mount Maunganui in late 2016. Customers have told us they like the modern and contemporary look and feel of the new store design and layout of zones, saying it feels more welcoming and is very different to our traditional TAB. A mix of Board venues and PubTABs/ClubTABs have been updated so far, with eight Board venues, five PubTABs and one ClubTAB completed. Early results are showing a positive uplift in both TAB and gaming performance at these sites.

FIXED ODDS BETTING

Our Fixed Odds Betting (FOB) programme is now in full implementation mode and on track to deliver our new platform for the start of the 2018/19 season. This is a major undertaking for NZRB, and comes on the heels of the successful delivery of our other major technology project, the Optimus programme.

In December 2016, after several months of in-depth analysis of the proposals put forward by a number of prospective partners, the NZRB Board approved to engage with both OpenBet and Paddy Power Betfair on the design for a fixed odds betting platform solution. At the beginning of 2017, NZRB, Openbet and Paddy Power Betfair collaborated on the business case that outlined the proposed design and implementation plan which was approved by the Board's Technology sub-committee in May 2017. The programme implementation team was established in July 2017, and is working towards delivering the new platform for the start of the 2018/19 season.

Openbet is building the platform, and has provided similar betting infrastructure to many of the largest betting businesses in the world including William Hill and Sportsbet. Paddy Power Betfair will provide the data, pricing and risk management tools that drive the platform, allowing us to access the best quality information for our pricing and more evenly compete with the top players internationally in this space. Once implemented, the new system will significantly enhance the number of fixed odds options and the overall betting experience for customers.

NZRB BUSINESS UPDATE (CONTINUED)

OPTIMISE THE CALENDAR

Following the introduction of a new set of principles and guidelines for the allocation of dates in the 2017/18 season, the New Zealand racing calendar was developed to best maximise revenue, optimise the cost of its delivery and improve the quality and competitiveness of racing. While this approach has resulted in no material change to the number of meetings or races by code, we estimate they will add \$3 million in economic value to the industry (made up of changes to NZRB and club costs and revenues), compared to rolling over the standard calendar from the previous season.

The focus is now firmly on racing venues and how we, in conjunction with the three racing codes, will develop a national venue plan to ensure we have first class track and training infrastructure that delivers the best possible environment to train and race horses and greyhounds, that also meet the expectations of owners and punters, both domestically and internationally, to invest and wager on New Zealand racing. Engagement with the wider racing industry is planned to be undertaken to seek feedback and input into this plan.

VISION CAPTURE

The Vision Capture project was set up to design and implement the long-term strategy for capturing racing footage in New Zealand. The project's scope included reviewing the current operating model for efficiency and ability to meet future requirements and replacing the current end-of-life outside broadcast fleet. The vision capture implementation roadmap was endorsed by the NZRB Board in November 2016 and phase one of implementation began in February 2017.

Phase one has just been delivered and sees significant changes to the operating model used for the capture of vision for greyhound meetings. This includes a new centralised production model that allows NZRB to achieve economies of scale through the development of a purpose built fixed control room. This approach is suitable for greyhound race meetings, given the smaller production levels and venue numbers.

Phase one also included the implementation of a new network to transport the vision from the racetracks to the fixed control room and other changes to support the move from standard to high definition. Selection of a preferred vendor to build new outside broadcast vehicles, along with the development of designs for the replacement of the outside broadcast vehicles required for equine meetings was also completed in phase one of the project.

The project team are working closely with NZRB's Optimise the Calendar project to maximise cost reductions in delivery, including a reduced number of outside broadcast vehicles for vision capture at equine meetings from the current six vehicles down to four in the future model.

KEY CUSTOMER TRENDS

THE NUMBER OF UNIQUE CUSTOMERS TO PLACE A BET IN THE PAST 12 MONTHS WAS 192,200, UP 6.7% ON LAST YEAR

The number of active bettors per month continues to increase with an average of **98,000 active customers** per month, and the highest-ever monthly number of active bettors (excluding Melbourne Cup month) achieved in June 2017 with more than **109,900 active bettors**

Over **53,000** customers made their first bet in 2016/17

RACING TOTE IS STILL MOST POPULAR AT 45% OF TURNOVER, BUT IS DECLINING, DOWN FROM 48% LAST YEAR

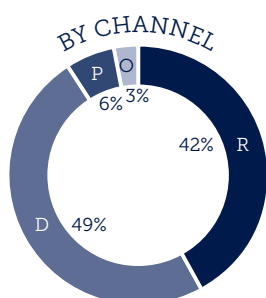
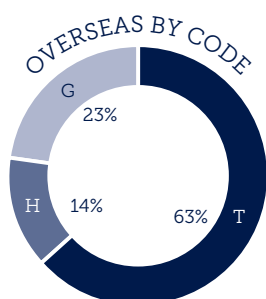
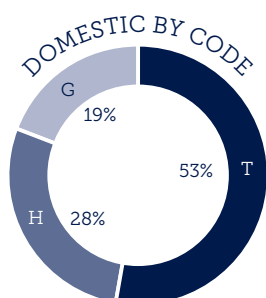
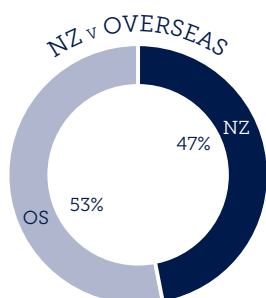
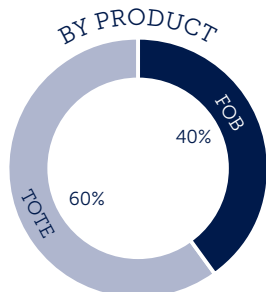
TURNOVER THROUGH OUR RETAIL NETWORK WAS \$791.8 MILLION, SLIGHTLY UP ON LAST YEAR WITH TURNOVER GROWTH OF 0.2%. THE DECLINE IN TURNOVER THROUGH OUR ONCOURSE AND HOSTED VENUE NETWORK WAS OFFSET BY AN \$11.3 MILLION [3.0%] GROWTH IN TURNOVER FOR BOARD VENUES

DIGITAL CHANNELS MAKE UP 58% OF BETTING TURNOVER, UP FROM 56% LAST YEAR, WITH THE TAB MOBILE APP THE FASTEST GROWING CHANNEL WHERE TURNOVER GREW BY 63.5% THIS YEAR AND APP CUSTOMERS UP 31.1%

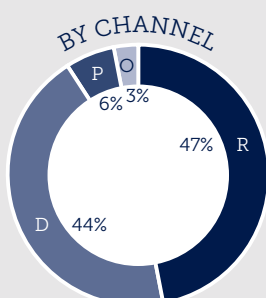
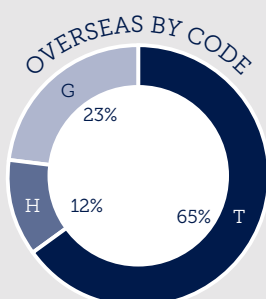
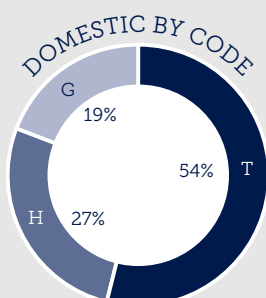
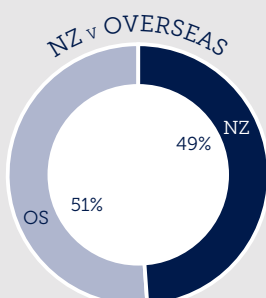
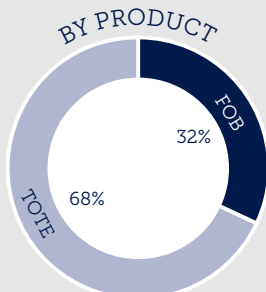
58% OF BETTING TURNOVER IS THROUGH ACCOUNT-BASED CUSTOMER CHANNELS

The closure and migration of Phonebet customers to other channels, has driven growth in Touch Tone of \$8.8 million (10.7%) in turnover on last year

RACING TURNOVER
\$1,665.3m



RACING GBR
\$286.7m



+

SPORTS GBR
\$51.0m



»»»

GROSS BETTING REVENUE

\$337.7m

GROSS GAMING REVENUE

\$37.8m

GAMING TURNOVER
\$436.3m

SPORTS TURNOVER
\$579.3m

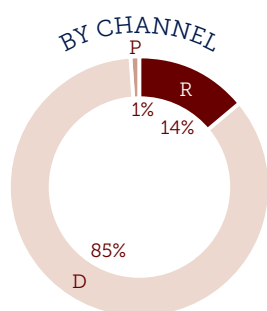
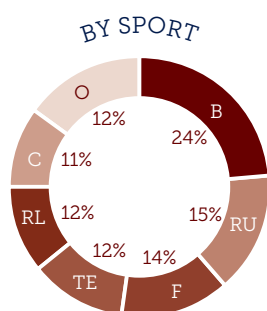
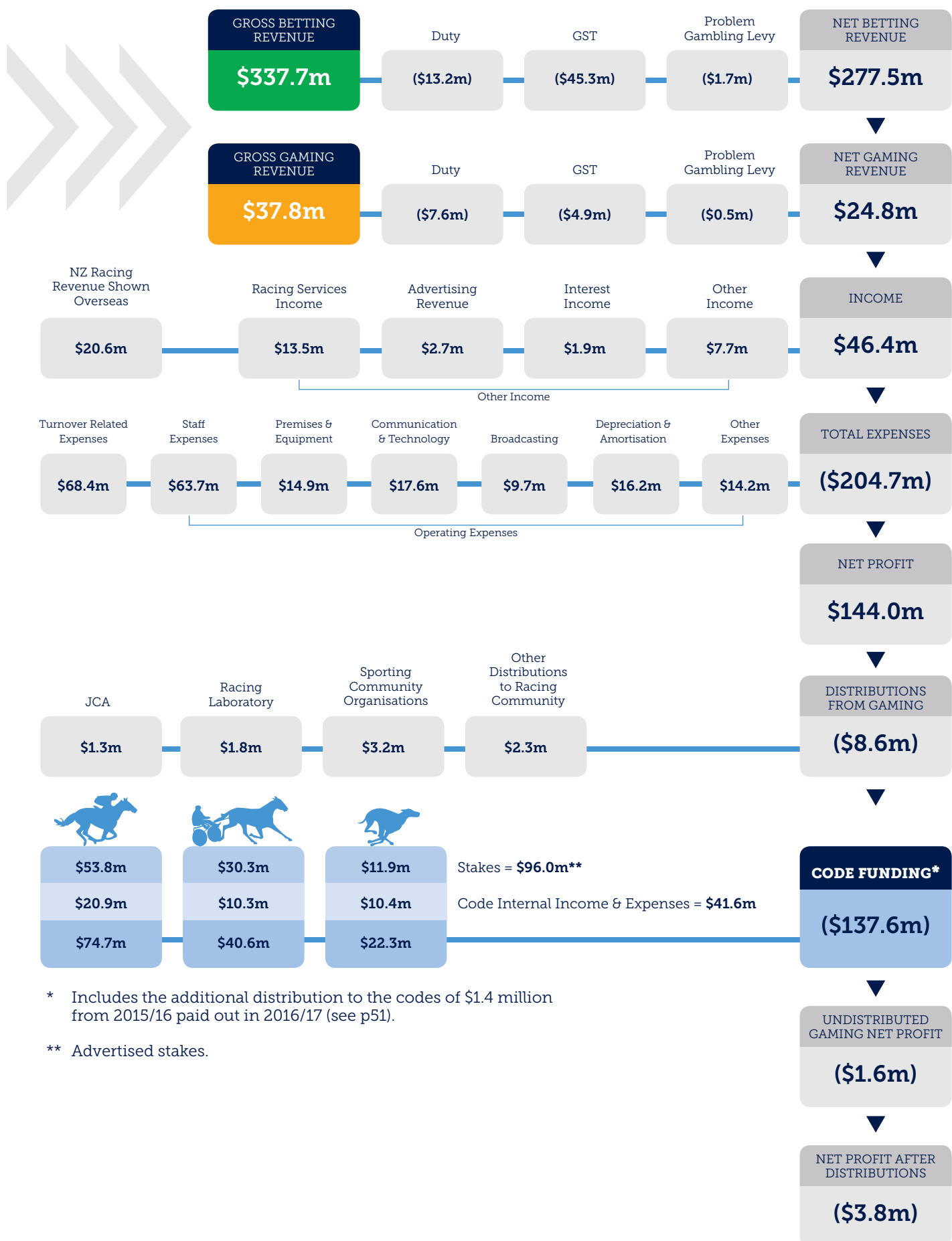


CHART KEY

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



RESPONSIBLE GAMBLING

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

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

FOCUS ON HARM PREVENTION AND MINIMISATION

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

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

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

In 2016/17, \$118,500 was invested in the provision of training in harm minimisation and prevention procedures for staff in customer-contact roles within NZRB and the wider racing industry in order to ensure leadership continues to be taken in this area. This amount is consistent with last year.

IDENTIFICATION AND MANAGEMENT

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

It is a requirement in the TAB Retail Agency Contract that all store management staff, and those who work in sole operator positions, undertake appropriate and robust problem gambling training to help meet responsibilities around harm prevention and minimisation.

In addition, NZRB provides complementary training programmes developed in conjunction with the PGF, allowing staff to undertake problem gambling awareness and refresher training online.

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

With these processes and staff training in place 2016/17 saw 534 customers issued with exclusion notices (both self-exclusion and by NZRB), while 27 account customers were placed in the Set Your Limits betting restriction programme. These numbers represent an extremely small percentage of the TAB customer base.

GAMBLING RESTRICTION PROGRAMMES

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

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

The limitations on betting activity can be either a request to limit the amount of money able to be spent through the account each week, or a request to limit the level of losses through the account. Once the agreed limit has been reached, no further bets will be accepted on the nominated account for that week.

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

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

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

CLASS 4 GAMING DISTRIBUTIONS

In 2016/17, NZRB returned more than \$15 million to the community through our sports and racing authorised purposes; \$12.3 million was distributed to racing authorised purposes, and \$3.2 million was distributed under sports authorised purposes, with 434 grants made to community sporting groups.

NZRB is a licensed Class 4 Gaming operator, with 43 of our 78 TAB Board venues hosting NZRB gaming machines. It is estimated NZRB operates around 3.6% of the total number of Class 4 venues and around 3.0% of the total number of gaming machines in the New Zealand market.

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

RACING AUTHORISED PURPOSE

	2016/17	2015/16
Racing Integrity Unit	6,033,500	6,000,000
Racing Laboratory Services	1,820,801	1,780,606
JCA	1,300,000	1,300,000
Other gaming distribution to the racing industry		
<i>Race form and racing calendar publications</i>	1,398,280	2,055,762
<i>Event Marketing & Logistics</i>	1,156,995	746,208
<i>Stakes Enhancement Grant</i>	535,555	-
<i>Infrastructure Grant</i>	20,000	-
<i>Youth Retention Grant</i>	8,470	-
TOTAL DISTRIBUTIONS TO RACING AUTHORISED PURPOSE (racing industry)	12,273,601	11,882,576
LESS RETURNED DISTRIBUTIONS FROM RACING INTEGRITY UNIT	-	(194,649)
TOTAL NET DISTRIBUTIONS TO RACING AUTHORISED PURPOSE (racing industry)	12,273,601	11,687,927

SPORTS AUTHORISED PURPOSE

	2016/17	2015/16
Distributions to sports authorised purpose	3,212,239	3,069,818
Sports authorised purpose grants returned	(38,554)	(83,086)
NET GRANTS TO SPORTS AUTHORISED PURPOSE	3,173,685	2,986,732

A further \$103,256 and \$70,000 was approved for the racing industry and sports authorised purpose respectively but not paid at year end.

GAMING GRANT GIVES OLYMPIANS A FIRM FOOTING

Late last year, the Christchurch School of Gymnastics gained the opportunity to purchase international grade equipment used at the 2016 Rio Olympics, at a reduced cost, something that has never been offered before in New Zealand.

The school's sights were set on purchasing a Gymnova sprung floor and uneven bars to upgrade their older bars and the floor that was on loan to them from Gymnsports New Zealand - however there was a considerable cost involved.

To meet some of this cost, the team applied for a grant with the New Zealand Racing Board. The school was approved \$10,000 of funding, and along with other funding they received, ordered their equipment, which arrived early in 2017. The equipment is now in place, and the next generation of Kiwi gymnasts are making progress on it, thanks in part to the grant.

This has enabled the club to provide world class facilities to their athletes, including Courtney McGregor, who was our youngest competitor at Rio, and only one of three kiwi gymnasts to compete, being the first artistic gymnast to represent us at an Olympic games since the 2000 Sydney Summer Olympics. The

Christchurch School of Gymnastics is also the Canterbury High Performance Centre & competition centre, so it is important that they have top quality equipment to foster the talent of gymnasts from across the neighbouring regions.



BOARD MEMBERS



GLEND A HUGHES
INDEPENDENT
CHAIRPERSON | BA

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



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

Mauro Barsi has spent the last three years leading a business transformation project including resculpting the recruitment and retention functions of the business, reinvigorating the product offering, and managing the Employers and Manufacturers Associations' risk profile. He currently leads one of the major business units within the EMA and is also involved in helping shape the EMA's Employment Law activity, lobbying and policy work. He regularly represents the EMA in a variety of activities and is often requested as a speaker for industry events and conferences.

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



BILL BIRNIE
INDEPENDENT
MEMBER | LLB

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



ALISTAIR RYAN
INDEPENDENT
MEMBER | MCOM, CA

Alistair Ryan has extensive board and senior executive experience in both listed and unlisted companies in New Zealand and Australia. Alistair is a chartered accountant (CA) of ICANZ and holds an M.Comm degree (First Class Hons) in Accounting from Canterbury University. In addition to his board membership of NZRB, Alistair is currently Chairman of NZX listed companies Kingfish Limited, Barramundi Limited, and Marlin Global Limited, Chair NZX and ASX listed company Evolve Education Group Limited, a Director of NZX and ASX listed company Metlifecare Limited, and a director of unlisted companies Christchurch Casinos Limited and Lewis Road Creamery Limited.

Alistair is a Member of ICANZ's Auditor Regulation Advisory Group and has been a member of one of the judging panels for the annual INFENZ finance sector awards for the last four years. Alistair held a number of senior executive positions during an extended career with SKYCITY Entertainment Group, commencing in 1995 (prior to opening of SKYCITY) through to retirement as Chief Financial Officer in June 2011. Prior to SKYCITY, Alistair was a partner with Ernst and Young in Auckland.

BOARD MEMBERS (CONTINUED)



GREG MCCARTHY
*THOROUGHBRED CODE
NOMINEE | BCA, CA*

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



GRAHAM COONEY
INDEPENDENT MEMBER

Graham Cooney is an experienced director across a number of sporting business and education institutions. He was a founding director and former Chairman of Blue Sky Meats (NZ) Limited, a former Chair of the Southern Institute of Technology, has previously served as a board member of the New Zealand Rugby Union, and is a Fellow of the the Institute of Directors, the NZ Institute of Primary Industry Management and NZ Institute of Management. Graham participates in the racing industry through his breeding and racing of a few standardbred horses.



ROD CROON
HARNESS CODE NOMINEE

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



BOARD MEMBERS (CONTINUED)

BOARD AND INTERESTS REGISTER - Board members as at 31 July 2017

GLENDIA HUGHES

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

MAURO BARSÌ

- Greyhound Racing New Zealand, Board Member
- EMA, GM Enterprises and Strategy / Corporate Legal Counsel

BILL BIRNIE

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

GRAHAM COONEY

- Southland Standardbred Breeders Association, Committee Member
- Standardbred ownership and breeding interests
- Red Meat Profit Partnership, Board Member

ROD CROON

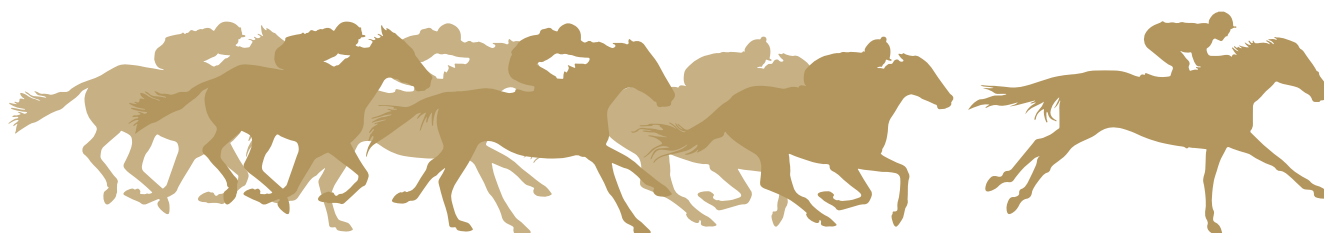
- Croon Bloodstock Limited, Managing Director
- Standardbred ownership and breeding interests
- Standardbred Breeders Association, Member
- Auckland Trotting Club, Vice President

GREG MCCARTHY

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

ALISTAIR RYAN

- Kingfish Limited, Chair
- Barramundi Limited, Chair
- Marlin Global Limited, Chair
- Metlifecare Limited, Director
- Christchurch Casinos Limited, Director
- Lewis Road Creamery Limited, Director
- Evolve Education Group Limited, Chair
- Audit Oversight Committee (FMA), Member



PARTNERING FOR SUCCESS

In a world of rapidly changing technology, any business that wants to compete online in the global market needs to utilise the most up-to-date technology, to provide the best possible customer experiences. Much of this technology is extremely specialised, utilising decades of experience and infrastructure developed by leaders in their respective fields.

Underinvestment in technology over decades has left NZRB playing catchup in many areas. That's why we've entered into strategic partnerships with three global leaders in their respective areas, leveraging their intellectual property and innovation to deliver best in class for our customers and employees.

To modernise the way we do IT and reduce our annual IT costs over a five-year term, we've partnered with Spark Digital. This partnership has helped deliver the Optimus programme, which has provided cloud-based network and security as well as a Google platform from which NZRB employees now work, enabling better collaboration, file security and a scalable platform for further digital enhancements.

And we're continuing to deliver online for our customers, by partnering with Openbet and PaddyPower Betfair to ensure that we're offering a competitive betting product to both the domestic and global market. Openbet are market leaders in betting software, with over 200 partners including Ladbrookes, William Hill and PaddyPower Betfair, and will provide a fixed odds betting platform to lift the competitiveness of our fixed odds offering, as well as deliver a new website and mobile app, to provide a consistent and improved customer experience.

Our partnership with PaddyPower Betfair will provide the content for our betting markets, allowing NZRB to offer a greater breadth and depth of product, and will be closely tied to the Openbet development. These exciting partnerships will position us as a fast follower in global betting innovation and development, making us more competitive and giving more opportunities for customer growth and retention.



GOVERNANCE STATEMENT

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

BOARD STRUCTURE AND COMPOSITION

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

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

Board members are appointed for terms not exceeding three years, but may be eligible for reappointment.

At the start of the 2016/17 racing season the full Board consisted of:

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

* In June 2017, Barry Brown completed his term as an NZRB Independent Director and Bill Birnie was appointed as an NZRB Independent Director from 23 June 2017.

As at 31 July 2017, the Racing Board leadership team comprises:

- John Allen, Chief Executive Officer
- Patricia Bolger, General Manager People
- Shaun Brooks, General Manager Finance
- Stephen Henry, General Manager Services
- Andy Kydd, General Manager Media & Content
- Glen Saville, General Manager Betting
- Dianna Taylor, General Manager Technology
- Gary Woodham, General Manager Customer

GOVERNANCE STATEMENT (CONTINUED)

BOARD RESPONSIBILITIES

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

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

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

BOARD PROCESS

The Board met nine times during the year to 31 July 2017. Every meeting is subject to a formal agenda and reporting procedures. Agendas are prepared by the Board's Secretary, in conjunction with the Chief Executive Officer and the Chair.

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

BOARD COMMITTEES

The Board formally constituted five committees in 2016/17: the Dates Committee, the Audit and Risk Committee, the Compensation and Development Committee, the Net Proceeds Committee and the Technology Committee.

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

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

DATES COMMITTEE

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

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

As at 31 July 2017, members of the Dates Committee were: Graham Cooney (Chair), Greg McCarthy, Rod Croon and Mauro Barsi.

GOVERNANCE STATEMENT (CONTINUED)

AUDIT AND RISK COMMITTEE

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

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

The Audit and Risk Committee meets at least four times a year and as at 31 July 2017 consisted of Alistair Ryan (Chair), Graham Cooney, Greg McCarthy and Bill Birnie.

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

The Investigations, Risk and Assurance team are charged with:

- Implementing an enterprise risk management framework;
- Developing and maintaining the organisation's policy framework;
- Monitoring and oversight of strategic and business risks;
- Oversight of risk incidents and control failures to enable feedback and rectification;
- Establishment of risk appetite and tolerance in relation to particular transactions and activities;
- Investigating suspicious or fraudulent activity around wagering and gambling activities;
- Managing NZRB's third party insurance programme;
- Establishing a regulatory compliance framework and oversight;
- Providing legal advice; and
- Leading the health and safety programme of work.

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

COMPENSATION AND DEVELOPMENT COMMITTEE

The Compensation and Development Committee monitors issues and determines policies and practices relating to the remuneration of the Chief Executive Officer, the Racing Board leadership team and all employees of the organisation. It also oversees management development and succession planning processes. As at 31 July 2017, the Compensation and Development Committee's members were Rod Croon (Chair), Mauro Barsi and Alistair Ryan.

NET PROCEEDS COMMITTEE

The Net Proceeds Committee was established to allocate the proceeds of the Class 4 gaming activity to racing and amateur sports bodies for authorised purposes. As at 31 July 2017, its members were: Graham Cooney (Chair), Alistair Ryan, Glenda Hughes and Bill Birnie.

GOVERNANCE STATEMENT (CONTINUED)

TECHNOLOGY COMMITTEE

The Technology Committee was established to oversee the strategic investment in NZRB's technology to support the rapid customer shift to digital channels and services as well as the customer and channel programme of work. As at 1 August 2016, its members were: Mauro Barsi (Chair), Alistair Ryan and Greg McCarthy; in June 2017, Rod Croon was appointed as member of the Committee.

BOARD MEMBERS AND REMUNERATION

	MEMBER'S REMUNERATION	BOARD MEETINGS	AUDIT & RISK COMMITTEE	DATES COMMITTEE	COMPENSATION & DEVELOPMENT COMMITTEE	NET PROCEEDS COMMITTEE	TECHNOLOGY COMMITTEE
Mauro Barsi	41,000	9	-	5	3	-	5
Bill Birnie	3,167	1	-	-	-	-	-
Barry Brown	34,833	8	4	-	-	5	-
Graham Cooney	49,000	9	4	5	-	6	-
Rod Croon	44,000	9	-	5	3	-	1
Glenda Hughes	70,000	9	-	-	-	5	-
Greg McCarthy	41,000	9	4	5	-	-	5
Alistair Ryan	43,000	8	4	-	3	6	5
TOTAL	326,000	9	4	5	3	6	5

EMPLOYEE REMUNERATION BANDING EQUAL TO OR OVER \$100K

The table below shows the number of employees and former employees of the NZRB Group (including Racing Integrity Unit), not being directors, who, in their capacity as employees, received remuneration and other benefits during 2016/17 of at least NZ\$100,000.

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

NZ\$000	2016/ 17	2015/ 16	NZ\$000	2016/ 17	2015/ 16
100-110	27	30	220-230	1	2
110-120	22	23	230-240	0	1
120-130	19	15	240-250	2	2
130-140	18	15	250-260	1	1
140-150	11	7	260-270	0	3
150-160	9	6	290-300	1	1
160-170	10	11	300-310	1	0
170-180	4	12	330-340	0	2
180-190	1	3	340-350	1	0
190-200	3	1	350-360	1	1
200-210	1	1	360-370	1	0
210-220	1	0	650-660	1	1

FIVE YEAR TRENDS

FIVE YEAR FINANCIAL SUMMARY

FULL YEAR (\$M)	2016/17	2015/16	2014/15 ⁽¹⁾	2013/14	2012/13
Statement of Profit or Loss					
Total turnover	2,680.9	2,673.4	2,389.7	2,088.5	1,956.8
Net betting margin	12.4%	12.4%	12.9%	13.9%	14.2%
Total income	348.7	351.9	336.4	312.4	304.9
Turnover related expenses	68.4	66.4	64.6	47.0	44.7
Operating expenses	136.3	138.8	127.8	128.3	123.5
Operating expenses/total income	39.1%	39.4%	38.0%	41.1%	40.5%
Net profit before distributions	144.0	146.7	144.0	137.0	136.7
Distributions to racing industry (including Racing Integrity Unit) ⁽²⁾	149.8	147.0	144.8	142.3	142.9
Group distributions to racing industry (excluding Racing Integrity Unit) ⁽³⁾	143.8	141.2	139.0	136.6	137.4
Net distributions to sporting community organisations	3.2	3.0	2.7	2.3	0.5
Distributions to national sporting organisations	9.3	8.0	6.1	5.0	3.8
Statement of Financial Position					
Total assets	136.7	139.9	131.9	125.0	122.4
Current assets	77.8	74.9	64.7	64.2	71.1
Current liabilities	63.6	62.1	56.7	55.8	50.5
Current assets to current liabilities ratio	1.2	1.2	1.1	1.2	1.4
Equity	69.3	73.8	70.8	68.1	69.5

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

⁽²⁾ Note 5 of the Financial Statements on page 51 shows the distribution information in more detail.

⁽³⁾ Group distributions reflect the distributions of the NZRB Group. The NZRB Group include the RIU results and therefore, the distributions to RIU are eliminated (excluded) from the Group distributions. The total distributions to RIU in 2016/17 were \$6.0 million (2015/16: \$5.8 million).

FIVE YEAR RACE SUMMARY

	2016/17	2015/16	2014/15	2013/14	2012/13
Greyhound	5,624	5,573	5,353	5,381	5,288
Harness	2,492	2,595	2,654	2,795	2,745
Thoroughbred	2,564	2,790	2,848	2,875	3,007
TOTAL	10,680	10,958	10,855	11,051	11,040
Imported	69,083	67,165	65,612	58,388	58,141
Exported	10,300	10,612	10,133	10,206	10,467

FINANCIAL COMMENTARY

For the year ended 31 July 2017 (against last year and budget).

The following financial commentary compares NZRB's actual results in 2016/17 against last year's actuals and 2016/17 budget as presented in NZRB's Statement of Intent 2017-2019 as approved by the Board on 28 July 2016.

The New Zealand Racing Board (NZRB) achieved an underlying operating profit for the year ended 31 July 2017 of \$148.0 million on budget and \$3.3 million (+2.3%) ahead of last year. Including the gain on sale of the Hamilton (2017) and Christchurch (2016) buildings as well as the strategic initiatives costs, reported net profit was \$144.0 million, \$2.7 million (-1.9%) below last year.

	ACTUAL 31 JULY 2017 NZ\$000	ACTUAL 31 JULY 2016 NZ\$000	UNAUDITED BUDGET 31 JULY 2017 NZ\$000
Betting and gaming turnover	2,680.9	2,673.4	2,752.3
Total revenue	348.7	351.9	351.5
Net profit before distributions	144.0	146.7	148.0
Total group distributions	146.2	143.9	145.7

For more detail, the financial statements comparison to last year is found in the Statement of Profit or Loss and Other Comprehensive Income found on page 37 of the Financial Statements and the comparison to Budget is found in the Supplementary information section found on page 71.

UNDERLYING OPERATING PROFIT RECONCILIATION	ACTUAL 31 JULY 2017 NZ\$000	ACTUAL 31 JULY 2016 NZ\$000	UNAUDITED BUDGET 31 JULY 2017 NZ\$000
Net profit before distributions	144.0	146.7	148.0
Gain on sale of buildings	(0.6)	(2.0)	-
Strategic initiatives investment	4.6	-	-
Underlying operating profit before distributions	148.0	144.7	148.0

For more detail, the reconciliation between the reported net profit before distributions and the underlying operating profit is found in Note 3 of the Financial Statements on page 47.

BETTING AND GAMING TURNOVER

Total turnover was \$7.4 million (+0.3%) ahead of last year due to growth in gaming performance (\$32.9 million ahead of last year) offset by a softer performance in betting turnover that was directly related to VIP commingling restrictions (down on last year by \$25.5 million).

Betting turnover for the year of \$2.3 billion was adversely impacted by a reduction in VIP customers betting into Australian hosted pools as a result of Tabcorp commingling restrictions and a lack of major international sporting events in 2016/17, with the exception of the British and Irish Lions Tour. The loss of some high staking elite customers combined with a large number of abandonments primarily on thoroughbreds had a negative impact to turnover this year. This resulted in betting turnover being lower than last year by \$25.5 million (-1.1%) and falling below budget by \$71.5 million (-2.6%). Despite these challenges, betting turnover excluding VIPs grew by \$5.0 million (+0.2%). This was underpinned by customer acquisition and retention with a significant increase in the number of active account customers (up +21.9% on last year) combined with a continued growth in sports in-play (up +9.4% on last year).

FINANCIAL COMMENTARY (CONTINUED)

For the year ended 31 July 2017 (against last year and budget).

Key movements year on year are as follows:

- Racing fixed odds turnover grew by \$45.6 million (+7.4%)
- Racing tote turnover decreased by \$95.6 million (-8.7%). Excluding VIP, racing tote decreased by \$65.1 million (-5.9%)
- Sports turnover grew by \$24.5 million (+4.4%)

Gaming turnover of \$436.3 million continued to perform strongly, increasing by \$32.9 million (+8.2%) on last year and \$15.8 million (+3.75%) ahead of budget. Major contributors to the growth in gaming turnover include the continued investment in new and existing venues and improvements in the performance of gaming machines. During the year, NZRB has opened two new venues: Mangere Bridge (opened on 14 June 2017) and Lower Hutt (opened on 31 July 2017) and closed one venue at Te Awamutu.

REVENUE

Total revenue was \$348.1 million, a decrease of \$1.8 million (-0.5%) compared to last year, excluding the gain on sale of the Hamilton (2017) and Christchurch (2016) buildings. This was mainly driven by a decrease in net betting revenue relating to VIP commingling restrictions and significantly higher level of abandonments throughout the year.

Overall net betting margins remained constant at 12.4%. Underlying product margins improved across most categories, particularly in racing FOB up +1.1ppts to 14.4%, that was offset by lower VIP contribution. Net betting revenue declined by \$3.5 million (-1.3%) compared to last year as a result of lower betting turnover from VIP customers. Compared to budget, net betting revenue was down \$2.3 million (-0.8%).

Net gaming revenue was in line with budget at \$24.8 million and \$1.6 million (+6.9%) ahead of last year due to the continued investment in existing and new venues including gaming conversions and refurbishments.

New Zealand racing shown overseas revenue decreased by \$0.3 million (-1.4%) on last year due to a significant increase in abandonments, particularly in thoroughbred races. The higher level of abandonments had a significant effect on the variance against budget of \$1.0 million (-4.6%).

Other revenue was \$1.0 million (-3.8%) lower than last year driven by gain on sale of building assets compared to 2016 (\$0.6 million vs \$2.0 million). Excluding the gains on sale of buildings, other revenue increased by \$0.4 million (+1.5%) on last year and was in line with budget. This was attributable to higher interest income and merchant fee revenue that reflects the preference of customers using credit cards.

EXPENSES

Underlying turnover related expenses were consistent with last year at \$66.4 million and just slightly (\$0.2 million) above Budget. Including the investment in Customer & Channels strategy of \$2.0 million relating to the TAB brand repositioning and marketing campaigns, the reported turnover related expenses were \$2.0 million (+3.0%) higher than the 2016 year and \$2.2 million (+3.3%) higher than budget. This strategic marketing investment was offset in part by savings in other marketing and advertising costs resulting in a net increase in advertising costs of \$0.6 million (+8.5%) year on year.

Turnover related expenses were also impacted by an increase in national sporting organisation (NSO) levies by \$1.3 million (+16.1%). Year on year increases in sports turnover and margin drove \$0.4 million of the increase, with a further \$0.9 million being contributed to a strategic fund developed in conjunction with Sport New Zealand. In comparison to budget, NSO levies were \$1.3 million (-12.1%) below budget due to lower than anticipated sports turnover, largely relating to lower in-play betting by some high value customers.

Underlying operating expenses have decreased by \$5.1 million (-3.7%) on last year and are \$3.6 million below budget. Including the impact of the strategic initiatives, the reported operating expenses of \$136.3 million decreased by \$2.5 million (-1.8%) on last year and \$1.0 million (-\$0.7%) below budget.

FINANCIAL COMMENTARY (CONTINUED)

For the year ended 31 July 2017 (against last year and budget).

Effective cost management remains a key focus area for the business with a significant reduction in underlying staff costs of \$4.4 million (-6.6%) year on year and \$1.6 million below budget. Cost savings were also realised in broadcasting (\$0.3 million), premises and equipment (\$0.1 million) and other expenditure (\$0.9 million) that were partly offset by an increase in communications and technology costs of \$1.0 million (+6.0%) versus last year and \$0.8 million (+5.0%) above budget relating to continued investment in our technology infrastructure and IT operating platforms as part of the Optimus programme.

Staff costs have decreased significantly year on year as a result of restructuring activity undertaken in 2016 aimed at realising long term cost savings, including the closing of Phonebet and removal of senior leaders incentive schemes. In 2017, staff vacancies were actively managed in order to continue to keep costs down. These savings were offset in part by labour costs associated with the strategic initiatives of \$1.3 million resulting in reported staff costs reducing by \$3.1 million (-4.7%) on last year.

REPORTED NET PROFIT BEFORE DISTRIBUTIONS

Reported net profit before distributions was \$144.0 million that includes the investment in strategic initiatives (\$4.6 million) and gain on sale of buildings (\$0.6m). This reported net profit is \$2.7 million (-1.9%) below last year.

UNDERLYING OPERATING PROFIT BEFORE DISTRIBUTIONS

The underlying operating profit excludes the investment behind the strategic initiatives and any one-off gain on sale of buildings in order to show NZRB's operating performance in a more comparable and meaningful manner.

2017 marks a milestone for NZRB with the commencement of the various strategic initiatives mentioned earlier in the annual report. As a result of these programmes, \$4.6 million of additional costs have been incurred during the year. Excluding these costs as well as the sale of the Hamilton and Christchurch buildings, underlying operating profit reached the budgeted target of \$148.0 million, which is \$3.3 million (+2.3%) ahead of last year.

This represents a strong financial result despite challenges including race abandonments, Tabcorp negotiations, changes in customer preferences, as well as the heavily competitive market environment. Such a result was only possible due to a focus on customer growth, margin management and disciplined cost management which continue to be at the forefront.

DISTRIBUTIONS

Total distributions to both the racing industry and sporting community organisations increased by \$2.3 million (+1.6%) on last year and \$0.5 million (+0.3%) on budget to \$146.2 million for 2016/17. Total distributions to the racing codes from betting in 2016/17 was \$137.6 million, \$2.3 million (+1.7%) ahead of last year. This balance includes \$1.4 million of above base distributions relating to the 2015/16 year.

FINANCIAL COMMENTARY (CONTINUED)

For the year ended 31 July 2017 (against last year and budget).

NZRB's balance sheet has been impacted by investment in the strategic initiatives in 2017, which have been funded from available cash (equity).

ASSETS

Current assets are higher than last year by \$2.9 million. This is driven by a \$6.0 million increase in short term deposits representing funds accumulated to finance the strategic initiative costs in future years, in conjunction with the newly approved revolving credit facility. This was partly offset by a decrease in cash and cash equivalents of \$1.8 million, some of which was used to fund the above mentioned additional costs. The total cash and term deposit balances, after excluding those relating to Betting Account and Vouchers Trust, are \$39.0 million (2016: \$36.6 million), representing an increase of \$2.4 million (+6.6%).

Trade and other receivables have decreased by \$2.0 million mainly due to the timing of year end falling on a Monday in 2017 in comparison to last year on a Sunday leading to a lower receivable balance for retail outlets and internet receipts.

Current assets for the year included assets held for sale relating to the Event Marketing & Logistics (EML) operation of \$1.2 million due to be transferred to The Races Limited Partnership in August 2017 (refer Note 26); these assets have previously been included under non-current assets and primarily accounts for current assets being above Budget by \$1.2 million.

Non-current assets have decreased from last year by \$6.1 million (-9.4%) due to a decrease in property, plant and equipment (PP&E) and intangible assets. The main drivers are the annual depreciation and amortisation charge that is higher than the level of capital investment incurred in 2016/7, the disposal of the Hamilton building as well as the transfer of EML assets to current asset classification. A total of \$1.2 million of new assets have been added this year relating to the strategic initiatives (out of a total of \$12.3 million).

Non-current assets are below budget by \$4.6 million due to the the sale of the Hamilton building in the current year combined with lower than budgeted capital expenditure.

LIABILITIES

Current liabilities have increased by \$1.5 million (+2.4%) compared to last year driven mainly by an increase in the balance payable to Tabcorp of \$1.3 million due to a large number of New Zealand customers betting on Australian commingled pools in the month of July.

Current liabilities are above budget by \$3.4 million, relating to an increase in undistributed gaming surplus provision, higher than anticipated trade payables driven by the level of commingling balances as of year end coupled with higher taxes payable.

Total non-current liabilities are marginally lower than last year driven mainly by a reduction in finance lease balances.

EQUITY

Total equity is \$69.3 million as at 31 July 2017, decreasing by \$4.5 million (-6.0%) on last year and \$6.1 million (-8.1%) lower than budget due to investment in the strategic initiatives of \$4.6 million combined with additional code distributions of \$1.4 million announced last year and paid from the current year's distributable profit. Both of these outlays were approved by the NZRB Board and funded from available cash therefore reducing NZRB's overall equity position.

FINANCIAL COMMENTARY (CONTINUED)

For the year ended 31 July 2017 (against last year and budget).

	ACTUAL 31 JULY 2017 NZ\$000	ACTUAL 31 JULY 2016 NZ\$000	UNAUDITED BUDGET 31 JULY 2017 NZ\$000
Current assets	77.8	74.9	76.6
Non-current assets	58.9	65.0	63.5
TOTAL ASSETS	136.7	139.9	140.1
Current liabilities	63.6	62.1	60.2
Non-current liabilities	3.8	4.0	4.5
TOTAL LIABILITIES	67.4	66.1	64.7
TOTAL EQUITY	69.3	73.8	75.4
TOTAL LIABILITIES AND EQUITY	136.7	139.9	140.1

For more details, the financial statements comparison to last year is found in the Statement of Financial Position found on page 39 of the Financial Statements and the comparison to budget is found in the supplementary information section found on page 71.



FINANCIAL STATEMENTS

FOR YEAR ENDED 31 JULY 2017

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Independent auditor's report

To the Board of the New Zealand Racing Board

The consolidated financial statements comprise:

- the statements of financial position as at 31 July 2017;
- the statements of profit or loss and other comprehensive income for the year then ended;
- the statements of changes in equity for the year then ended;
- the statements of cash flows for the year then ended; and
- the notes to the financial statements.

Our opinion

In our opinion, the consolidated financial statements of New Zealand Racing Board (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 31 July 2017, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

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

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

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

Our firm carries out other services for the Group in the areas of assurance, tax, and treasury advisory services. The provision of these other services has not impaired our independence as auditor of the Group.

Information other than the financial statements and auditor's report

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material



misstatement of this other information, we are required to report that fact. We have nothing to report in this regard, except that not all other information was available to us at the date of our signing.

Responsibilities of the Board Members for the consolidated financial statements

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

This description forms part of our auditor's report.

Who we report to

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

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

For and on behalf of:

Chartered Accountants
12 October 2017

Wellington

FINANCIAL STATEMENTS (CONTINUED)

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 JULY 2017

	NOTE	2017 \$000	2016 \$000
Betting and gaming turnover	6a	2,680,854	2,673,441
REVENUE			
Net betting revenue	6b	277,490	281,023
Net gaming revenue	6c	24,835	23,225
NZ racing revenue shown overseas	6d	20,616	20,910
Other revenue	7	25,756	26,765
TOTAL REVENUE		348,697	351,923
TURNOVER RELATED EXPENSES	8	68,401	66,436
OPERATING EXPENSES			
Broadcasting expenses		9,727	10,010
Communication and technology expenses	9a	17,631	16,628
Depreciation and amortisation		16,206	15,951
Foreign exchange (gain)/loss		(29)	214
Premises and equipment expenses	9b	14,924	15,030
Staff expenses	9c	63,689	66,824
Other expenses	9d	14,132	14,094
TOTAL OPERATING EXPENSES		136,280	138,751
TOTAL EXPENSES		204,681	205,187
NET PROFIT BEFORE DISTRIBUTIONS *	3	144,016	146,736
Distributions from betting	5	137,563	135,286
Distributions from gaming	5	8,639	8,568
Provision for undistributed gaming net profit	21	1,568	774
NET PROFIT AFTER DISTRIBUTIONS	4	(3,754)	2,108
OTHER COMPREHENSIVE INCOME			
Movement in fair value of cash flow hedges *		(707)	825
TOTAL OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR		(4,461)	2,933
TOTAL OTHER COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Non-controlling interests in Racing Integrity Unit Limited		(13)	67
NZRB reserves		(4,448)	2,866
		(4,461)	2,933

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

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

FINANCIAL STATEMENTS (CONTINUED)

STATEMENTS OF CHANGES IN EQUITY *FOR THE YEAR ENDED 31 JULY 2017*

	General reserve	Hedging reserve	Racing Integrity Unit Ltd	TOTAL GROUP EQUITY
	\$000	\$000	\$000	\$000
Balance as at 1 August 2015	71,006	(336)	166	70,836
Net profit after distributions	2,041	-	67	2,108
Other comprehensive income	-	825	-	825
Balance as at 31 July 2016	73,047	489	233	73,769
Net profit after distributions	(3,741)	-	(13)	(3,754)
Other comprehensive loss	-	(707)	-	(707)
Balance as at 31 July 2017	69,306	(218)	220	69,308



FINANCIAL STATEMENTS (CONTINUED)

STATEMENTS OF FINANCIAL POSITION AS AT 31 JULY 2017

	NOTE	2017 \$000	2016 \$000
CURRENT ASSETS			
Cash and cash equivalents	11	29,017	30,807
Trade and other receivables	12	9,071	11,115
Non-current assets held for sale	19	1,220	-
Other financial assets	13	37,000	31,000
Derivative assets		-	525
Other current assets		1,498	1,499
TOTAL CURRENT ASSETS		77,806	74,946
NON-CURRENT ASSETS			
Property, plant and equipment	17	39,284	44,858
Intangible assets (including software assets)	18	13,983	14,731
Other financial assets	13	3,003	2,692
Other non-current assets	14	2,596	2,690
TOTAL NON-CURRENT ASSETS		58,866	64,971
TOTAL ASSETS		136,672	139,917
CURRENT LIABILITIES			
Trade and other payables	15	26,744	24,848
Current liabilities held for sale	19	61	-
Customer betting account deposits and vouchers	16	24,779	24,521
Other financial liabilities	20	5,232	5,111
Derivative liabilities		214	-
Taxation payable		4,199	4,617
Provisions	21	2,372	2,984
TOTAL CURRENT LIABILITIES		63,601	62,081
NON-CURRENT LIABILITIES			
Other financial liabilities	20	2,711	3,028
Provisions	21	1,052	1,039
TOTAL NON-CURRENT LIABILITIES		3,763	4,067
TOTAL LIABILITIES		67,364	66,148
TOTAL EQUITY		69,308	73,769
TOTAL LIABILITIES AND EQUITY		136,672	139,917

The Board members of the New Zealand Racing Board authorised these financial statements for issue on 12 October 2017.



Glenda Hughes
Chair of the New Zealand Racing Board



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

FINANCIAL STATEMENTS (CONTINUED)

STATEMENTS OF CASH FLOWS *FOR THE YEAR ENDED 31 JULY 2017*

	2017 \$000	2016 \$000
CASH FLOWS FROM OPERATING ACTIVITIES		
INFLOWS		
Betting and gaming turnover	2,679,799	2,674,447
International racing fees and other income	36,054	29,658
Racing services income	13,468	14,181
Jackpot retentions and account deposits (net)	311	3,085
TOTAL INFLOWS FROM OPERATING ACTIVITIES	2,729,632	2,721,371
OUTFLOWS		
Betting and gaming dividends paid	(2,304,863)	(2,297,199)
Betting and gaming GST paid	(50,651)	(49,504)
Betting and gaming duty paid	(22,763)	(22,564)
National sporting organisations grants	(8,728)	(7,648)
Payments to suppliers	(118,759)	(118,832)
Payments for employee benefits including termination payments and contractors	(64,552)	(65,551)
TOTAL OUTFLOWS FROM OPERATING ACTIVITIES	(2,570,316)	(2,561,298)
NET CASH PROVIDED BY OPERATING FACILITIES	159,316	160,073
CASH FLOWS FROM INVESTING ACTIVITIES		
INFLOWS		
Interest received	1,944	1,703
Proceeds from sale of property, plant and equipment	1,400	3,608
TOTAL INFLOWS FROM INVESTING ACTIVITIES	3,344	5,311
OUTFLOWS		
Investment of short-term deposits	(6,000)	-
Drawdown of industry loans	(250)	-
Purchases of property, plant and equipment	(6,761)	(9,447)
Purchases of intangible assets	(3,586)	(3,125)
TOTAL OUTFLOWS FROM INVESTING ACTIVITIES	(16,597)	(12,572)
NET CASH USED IN INVESTING ACTIVITIES	(13,253)	(7,261)
CASH FLOWS FROM FINANCING ACTIVITIES		
OUTFLOWS		
Interest paid	(338)	(334)
Repayment of finance lease	(287)	(259)
Distributions to the racing codes	(139,384)	(135,694)
Gaming distributions for racing industry costs	(4,086)	(2,972)
Gaming distribution to external bodies	(3,636)	(3,482)
NET CASH USED IN FINANCING ACTIVITIES	(147,731)	(142,741)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(1,668)	10,071
Cash and cash equivalents as at the beginning of the year	30,807	20,717
Foreign exchange loss /(gain) on cash and cash equivalents	(122)	19
CASH AND CASH EQUIVALENTS AS AT THE END OF THE YEAR	29,017	30,807

FINANCIAL STATEMENTS (CONTINUED)

STATEMENTS OF CASH FLOWS *FOR THE YEAR ENDED 31 JULY 2017* (CONTINUED)

RECONCILIATION OF NET PROFIT TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	2017 \$000	2016 \$000
NET (LOSS)/PROFIT AFTER DISTRIBUTIONS	(3,754)	2,108
NON-CASH ITEMS		
Depreciation and amortisation expense	16,206	15,951
Increase / (decrease) in provision for doubtful debts	71	(76)
Impairment	267	297
Other non-cash items	(197)	557
TOTAL NON-CASH ITEMS	16,347	16,729
ITEMS CLASSIFIED AS INVESTING/FINANCING ACTIVITIES		
Net gain on sale of property, plant and equipment	(599)	(2,044)
Net interest (received) / paid	(1,574)	(1,443)
Distributions to the racing codes	137,563	135,286
Gaming distributions for racing industry costs	7,033	6,880
Gaming distribution to external bodies	3,173	2,987
TOTAL ITEMS CLASSIFIED AS INVESTING/FINANCING ACTIVITIES	145,596	141,666
MOVEMENT IN CURRENT ASSETS		
Increase / (decrease) in trade and other receivables	(2,013)	1,604
Increase / (decrease) in other assets	(41)	3,305
TOTAL MOVEMENT IN CURRENT ASSETS	(2,054)	4,909
MOVEMENT IN LIABILITIES		
Increase / (decrease) in trade and other payables	3,021	(933)
Decrease in customer betting account deposits	(258)	(3,070)
(Decrease) / increase in other financial liabilities	(599)	982
Increase / (decrease) in taxes payable	418	(1,342)
Increase / (decrease) in provisions	599	(976)
TOTAL MOVEMENT IN LIABILITIES	3,181	(5,339)
NET CASH PROVIDED BY OPERATING ACTIVITIES	159,316	160,073

NOTES

TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JULY 2017

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

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

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

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

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

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

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

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

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

1. BASIS OF PREPARATION

REPORTING ENTITY AND STATUTORY BASE

The New Zealand Racing Board (NZRB) is a statutory body established by the Racing Act 2003. 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.

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 NZRB's functional currency.

CHANGES IN ACCOUNTING POLICIES

There have been no changes in accounting policies during the year ended 31 July 2017. All the accounting policies have been applied consistently throughout the period and are the same as those used in the financial statements for the year ended 31 July 2016.

NEW STANDARDS AND INTERPRETATIONS ISSUED

The financial statements have been drawn up on the basis of accounting standards, interpretations and amendments effective at the beginning of the accounting period on 1 August 2016.

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

- NZ IFRS 9 *Financial instruments* was issued in September 2014 as a complete version of the standard. NZ IFRS 9 replaces NZ IAS 39 (and other previous versions of NZ IFRS 9) that relates to the three aspects of financial instruments accounting: classification and measurement, impairment and hedge accounting. NZ IFRS 9 is effective for reporting periods beginning on or after 1 January 2018 and NZRB plans to adopt the new standard from 1 August 2018.

Classification and measurement

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

Impairment

NZ IFRS 9 introduces a new expected credit loss (ECL) model for assessing and measuring impairment of NZRB's debt security financial assets (e.g. trade receivables and industry loans) measured at amortised cost, either on a 12-month or lifetime basis. The ECL model results in earlier recognition of impairment losses based on a forward-looking analysis of the counterparty's credit standing whereas the current incurred loss model is based on the existence of an objective past evidence of impairment. NZRB expects to apply the simplified approach and record lifetime expected losses on all trade receivables measured at amortised cost; with respect to its industry loans, loan commitments and financial guarantees, NZRB expects to apply the general approach by applying the ECL on various stages depending on the degree of the counterparty's credit deterioration. Based on initial impact analysis, it is not expected that the change in the impairment model will result to any significant differences in the value of impairment taken compared to current practice although the timing of recognition of such loss may differ.

Hedge accounting

NZ IFRS 9 does not change the general principles of how an entity accounts for effective hedges; as such, NZRB does not expect a significant impact as a result of applying NZ IFRS 9 for its hedges currently in place. NZRB believes that all existing hedge relationships that are currently designated in effective hedging relationships will still qualify for hedge accounting under NZ IFRS 9.

- NZ IFRS 15 *Revenue from contracts with customers* replaces the current revenue recognition guidance in NZ IAS 18 *Revenue* and NZ IAS 11 *Construction contracts* and is applicable to all entities with revenue. It sets out a five step model for revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Group is currently undertaking an assessment to measure the impact of the new standard. NZRB will apply this standard from 1 August 2018.
- 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 the recognition of (a) 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. 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. NZRB has yet to assess NZ IFRS 16's full impact. However, given the significant lease properties of NZRB, the change in accounting will have a significant impact on the balance sheet position of the Group. The Group is currently undertaking an assessment to measure the impact of the new standard.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

NZRB has used judgement in the reclassification of the distributions to racing codes, Gaming distributions to the racing industry and Gaming distributions to external bodies balances from Operating Activities to Financing Activities in the Statement of Cash Flows. It is NZRB's view that this reclassification provides a more accurate picture of the cash generated from the day to day business operations and the cash distributed to its stakeholders.

TAXES

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

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

- Betting duty of 4 cents in the dollar on Gross Betting Revenue
- Gaming machine duty of 20 cents in the dollar on Gross Gaming Revenue
- Problem Gambling levy of 0.52 cents in the dollar on Gross Betting Revenue and 1.30 cents in the dollar on Gross Gaming Revenue
- GST charged on GST-inclusive Gross Betting Revenue and Gross Gaming Revenue
- Broadcasting levy of 0.00051 cents in the dollar of revenue from broadcasting in New Zealand
- Fringe benefit tax (FBT)
- Accident Compensation Commission (ACC) levies
- Compulsory KiwiSaver employer contributions
- Property taxes including local body rates

NZRB may be subject to foreign income tax on certain income earned overseas.



GROUP STRUCTURE

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

What is the structure of the group?

2. GROUP ENTITIES

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by NZRB as at 31 July 2017 and the results of the operations of such entities for the year. NZRB and such entities are together referred to in these financial statements as NZRB or the Group.

NZRB controls an entity when NZRB is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Controlled entities are consolidated from the date on which control is transferred to NZRB. Subsidiaries are deconsolidated from the date that control ceases. Balances between controlled entities, including inter-entity transactions, are eliminated.

INTEREST IN SUBSIDIARIES

The Group includes the following subsidiary and controlled entity:

	Principal place of business	Reporting date	Interest 2017 (%)	Interest 2016 (%)
Betting Accounts and Vouchers Trust	New Zealand	31 July	100	100
Racing Integrity Unit Limited	New Zealand	31 July	25	25

CONSOLIDATION OF BETTING ACCOUNTS AND VOUCHERS TRUST

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

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

CONSOLIDATION OF RACING INTEGRITY UNIT

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

How are the results of NZRB reported internally?

3. UNDERLYING OPERATING PROFIT RECONCILIATION

This note represents NZRB's underlying operating profit which separately shows the impact of the strategic initiatives costs and the gain on sale of buildings for each year reported 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 2017 Budget was compiled excluding strategic initiatives and gain on sale on a consistent basis with the 2017-2019 Statement of Intent; therefore, underlying operating performance can be compared to Budget in a more meaningful way.

The gain on sale of buildings relate to the sale of the Hamilton building in 2017 and Christchurch building in 2016.

The strategic initiatives undertaken in 2017 included::

- **Fixed Odds Betting** - NZRB has appointed a strategic FOB partner as OpenBet and Paddy Power Betfair in December 2016 with development / implementation commencing in June 2017.
- **Racefields legislation** - has been introduced into Parliament and had its first reading before the House rose for the 2017 election.
- **Customer & Channels Programme** - relaunched the TAB brand, established two new Retail TAB concept venues, rolled-out digital Identity Verification and Elite customer portal and delivered two Mobile App releases. Retail network plan has also been developed with venue realignment underway across TAB venues, Pub and Club TABs. This programme incurred \$2.7 million in costs mainly relating to the TAB branding relaunch (\$2.0 million) reported under advertising and promotion included in turnover related expenses.
- **Optimise the Calendar** - approved changes to the racing calendar to optimise betting revenue initially delivered positive results that have been incorporated into the 2017/18 racing season.

2017	Note	Reported Net Profit \$000	Gain on Sale of Buildings \$000	Strategic Initiatives \$000	Underlying Operating Profit \$000
REVENUE					
Net betting revenue		277,490	-	-	277,490
Net gaming revenue		24,835	-	-	24,835
NZ racing revenue shown overseas		20,616	-	-	20,616
Other revenue		25,756	(611)	-	25,145
TOTAL REVENUE		348,697	(611)	-	348,086
TURNOVER RELATED EXPENSES	8	68,401	-	(1,968)	66,433
OPERATING EXPENSES					
Broadcasting expenses		9,727	-	-	9,727
Communication and technology expenses		17,631	-	6	17,637
Depreciation and amortisation		16,206	-	(426)	15,779
Foreign exchange (gain)/loss		(29)	-	-	(29)
Premises and equipment expenses	9b	14,924	-	-	14,924
Staff expenses	9c	63,689	-	(1,269)	62,420
Other expenses	9d	14,132	-	(938)	13,194
TOTAL OPERATING EXPENSES		136,280	-	(2,627)	133,654
TOTAL EXPENSES		204,681	-	(4,595)	200,086
UNDERLYING OPERATING PROFIT BEFORE DISTRIBUTIONS		144,016	(611)	4,595	148,000

2016

REVENUE

Net betting revenue
Net gaming revenue
NZ racing revenue shown overseas
Other revenue

TOTAL REVENUE
TURNOVER RELATED EXPENSES
OPERATING EXPENSES

Broadcasting expenses
Communication and technology expenses
Depreciation and amortisation
Foreign exchange (gain)/loss
Premises and equipment expenses
Staff expenses
Other expenses

TOTAL OPERATING EXPENSES
TOTAL EXPENSES
UNDERLYING OPERATING PROFIT BEFORE DISTRIBUTIONS

Reported Net Profit	Gain on Sale of Buildings	Underlying Operating Profit
\$000	\$000	\$000
281,023	-	281,023
23,225	-	23,225
20,910	-	20,910
26,765	(2,002)	24,763
351,923	(2,002)	349,921
66,436	-	66,436
10,010	-	10,010
16,628	-	16,628
15,951	-	15,951
214	-	214
15,030	-	15,030
66,824	-	66,824
14,094	-	14,094
138,751	-	138,751
205,187	-	205,187
146,736	(2,002)	144,734



4. OPERATING SEGMENTS

NZRB has two operating segments:

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

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

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

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

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

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

	Betting	Gaming	RIU	Total
	\$000	\$000	\$000	\$000
2016				
NET PROFIT/(LOSS) BEFORE DISTRIBUTIONS	137,305	15,147	(5,716)	146,736
Less distributions	(135,286)	(14,373)	5,805	(143,854)
Less provision for undistributed gaming net profit	-	(774)	-	(774)
NET PROFIT AFTER DISTRIBUTIONS	2,019	-	89	2,108
KEY SEGMENT INFORMATION				
Total turnover	2,270,110	403,331	-	2,673,441
Depreciation and amortisation	(13,975)	(1,942)	(34)	(15,951)
Additions to non-current assets	10,589	1,875	241	12,705
Total assets	134,673	10,713	(5,469)	139,917
Total liabilities	61,110	10,713	(5,675)	66,148

KEY NUMBERS

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

What was the return to NZRB's stakeholders?

5. DISTRIBUTIONS

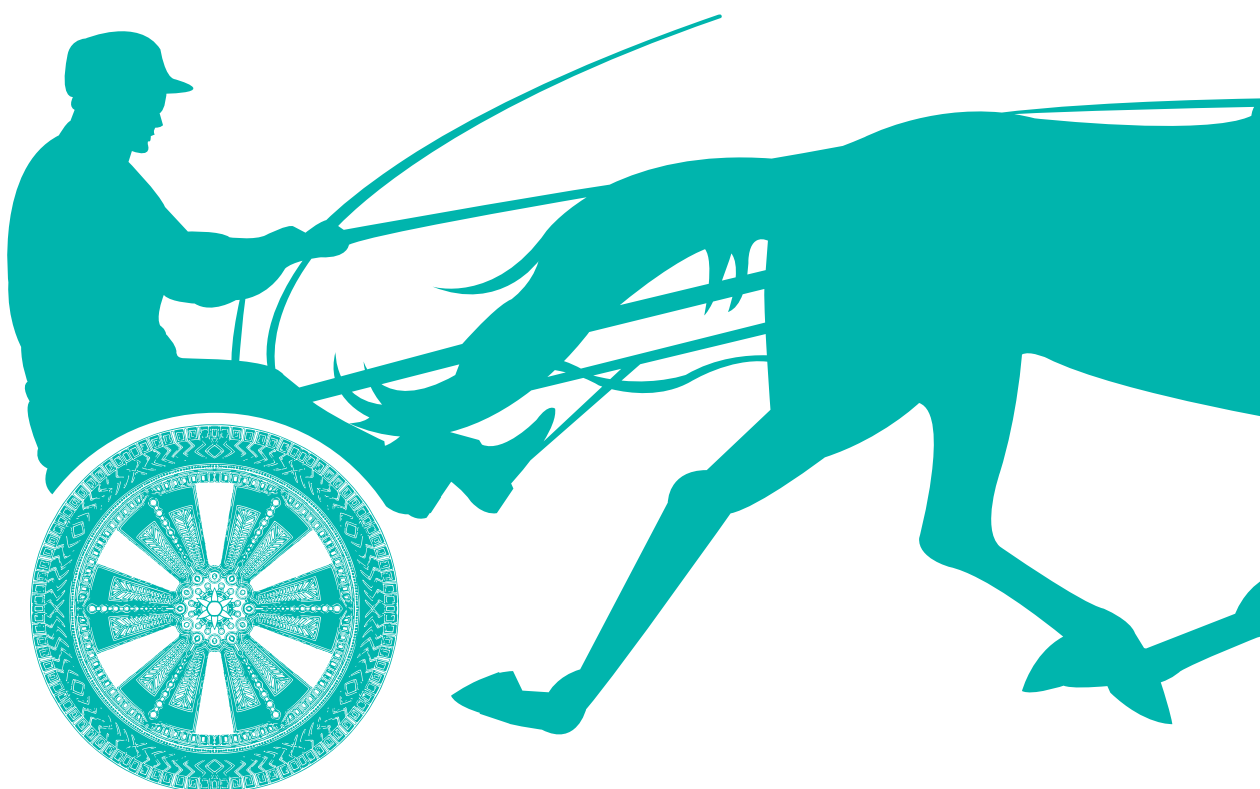
NZRB's net profit from its betting operations is distributed to the racing industry (directly through the racing codes) in accordance with the Racing Act 2003.

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

Distributions of gaming net profit are determined separately from distributions from betting net profit. Under the NZRB's Class 4 gaming licence, NZRB distributes funds to amateur sports organisations and applies funds to NZRB costs to cover specific industry costs which are considered to be for racing authorised purposes. 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.



NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JULY 2017 (CONTINUED)

	BETTING	GAMING	Undistributed Gaming net profit from last year	TOTAL
	\$000	\$000	\$000	\$000
31 JULY 2017				
DISTRIBUTIONS TO THE RACING INDUSTRY				
Code funding *	137,563	-	-	137,563
RIU	-	5,780	254	6,034
Racing Laboratory Services	-	1,659	162	1,821
JCA	-	1,192	108	1,300
Other distributions to racing industry				
Event Marketing and Logistics	-	1,057	100	1,157
Race form publications	-	1,259	139	1,398
Infrastructure development	-	20	-	20
Stakes enhancement	-	536	-	536
Youth recruitment & retention	-	8	-	8
TOTAL DISTRIBUTIONS TO RACING INDUSTRY	137,563	11,511	763	149,837
Distributions to sporting community organisations				
Sports authorised purposes (paid and payable)	-	3,162	11	3,173
TOTAL DISTRIBUTIONS TO SPORTING COMMUNITY ORGANISATIONS	-	3,162	11	3,173
Reversal of prior year provision for undistributed net profit	-	-	(774)	(774)
TOTAL DISTRIBUTIONS FROM NZRB PARENT	137,563	14,673	-	152,236
Distributions to RIU - eliminated on consolidation	-	(6,034)	-	(6,034)
TOTAL DISTRIBUTIONS FROM GROUP	137,563	8,639	-	146,202

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

	BETTING	GAMING	Undistributed Gaming net profit from last year	TOTAL
	\$000	\$000	\$000	\$000
31 JULY 2016				
DISTRIBUTIONS TO THE RACING INDUSTRY				
Code funding	135,286	-	-	135,286
RIU	-	5,622	183	5,805
Racing Laboratory Services	-	1,754	27	1,781
JCA	-	1,287	13	1,300
Other distributions to racing industry				
Event Marketing and Logistics	-	747	-	747
Race form publications	-	2,055	-	2,055
TOTAL DISTRIBUTIONS TO RACING INDUSTRY	135,286	11,465	223	146,974
Distributions to sporting community organisations				
Sports authorised purposes (paid and payable)	-	2,908	79	2,987
TOTAL DISTRIBUTIONS TO SPORTING COMMUNITY ORGANISATIONS	-	2,908	79	2,987
Reversal of prior year provision for undistributed net profit	-	-	(302)	(302)
TOTAL DISTRIBUTIONS FROM NZRB PARENT	135,286	14,373	-	149,659
Distributions to RIU - eliminated on consolidation	-	(5,805)	-	(5,805)
TOTAL DISTRIBUTIONS FROM GROUP	135,286	8,568	-	143,854

Where did NZRB's income come from?

6. REVENUE

Betting turnover comprises turnover from totalisator and fixed odds betting:

- **Totalisator turnover** is recognised once the outcome of the betting event is confirmed.

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

Gaming turnover is 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.

	2017 \$000	2016 \$000
6a. TURNOVER (including GST)		
Betting turnover - racing totalisator	1,000,797	1,096,389
Betting turnover - racing fixed odds	664,490	618,927
Total betting turnover - racing	1,665,287	1,715,316
Betting turnover - sports totalisator	-	368
Betting turnover - sports fixed odds	579,314	554,426
Total betting turnover - sports	579,314	554,794
Total betting turnover	2,244,601	2,270,110
Gaming turnover	436,253	403,331
TOTAL BETTING AND GAMING TURNOVER	2,680,854	2,673,441
6b. NET BETTING REVENUE		
Total betting turnover	2,244,601	2,270,110
Less: dividends payable	(1,906,866)	(1,927,819)
Gross betting revenue	337,735	342,291
Betting duty	(13,188)	(13,357)
GST	(45,318)	(45,902)
Problem gambling levy	(1,739)	(2,009)
NET BETTING REVENUE	277,490	281,023
6c. NET GAMING REVENUE		
Gaming turnover	436,253	403,331
Less: dividends paid	(398,428)	(367,952)
Gross gaming revenue	37,825	35,379
Gaming machine duty	(7,565)	(7,076)
GST	(4,933)	(4,615)
Problem gambling levy	(492)	(463)
NET GAMING REVENUE	24,835	23,225

6d. NZ RACING SHOWN OVERSEAS

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

7. OTHER REVENUE

NZRB's other revenue comprises of the following:

Gain on disposal of property, plant and equipment is the difference between the net proceeds from disposal and the carrying amount of the item disposed and is recognised when the risks and rewards of ownership have transferred to the buyer (this is usually the date the title is transferred).

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

Merchant fee revenue is income derived from credit card transaction fees charged to customers.

Racing services income represents income earned by NZRB from providing on-course raceday services to racing clubs. Racing services income is recognised at the time that the racing event takes place.

Revenue from broadcasting within New Zealand is advertising income earned on NZRB's Trackside TV channel and Radio Trackside and is subject to levies under the Broadcasting Act 1989.

All other revenue comprises mainly of telecommunications, rent and publications revenue. It is measured at the fair value of the consideration given and is recognised when risks and rewards transfer from NZRB.

	2017 \$000	2016 \$000
Gain on disposal of property, plant and equipment and intangibles	599	2,044
Interest	1,911	1,777
Merchant fee	3,847	2,552
Racing services	13,468	14,181
Revenue from broadcasting within New Zealand	726	777
Other revenue	5,205	5,434
TOTAL OTHER REVENUE	25,756	26,765

The gain on disposal of property, plant and equipment in the 2017 year includes the sale of the Hamilton building of \$0.6 million (2016: sale of the Christchurch building of \$2.0 million).



What costs were incurred in deriving this income?

8. TURNOVER RELATED EXPENSES

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

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

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

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

	2017 \$000	2016 \$000
Advertising & promotions *	8,156	7,519
Commingling	1,484	1,522
National sporting organisations	9,267	7,985
Overseas racing rights	28,055	27,872
Racing form publications **	2,996	3,699
Less race form publications recovered from gaming	(1,398)	(2,055)
Retail fees	16,127	16,250
Other turnover related expenses	3,714	3,644
TOTAL TURNOVER RELATED EXPENSES	68,401	66,436

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

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

9. OPERATING EXPENSES

9a. COMMUNICATION AND TECHNOLOGY EXPENSES

Communication and technology expenses include the new IT managed service agreement with Spark relating to the Optimus programme of \$8.6 million (2016: \$7.0 million).

9b. PREMISES AND EQUIPMENT EXPENSES

	2017 \$000	2016 \$000
Rent	7,600	7,097
Repairs and maintenance	2,348	2,606
Other premises and equipment expenses	4,976	5,327
TOTAL PREMISES AND EQUIPMENT EXPENSES	14,924	15,030

9c. STAFF EXPENSES

	2017 \$000	2016 \$000
Salaries and wages (including contractors) *	59,207	60,254
Termination expenses	18	1,860
Other staff expenses	4,464	4,710
TOTAL STAFF EXPENSES	63,689	66,824

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

9c. STAFF EXPENSES (CONT'D)

Compensation of key management personnel

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

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

	2017 \$000	2016 \$000
Chief Executive and leadership team remuneration		
Salaries and other short-term employee benefits *	2,743	2,520
Total Chief Executive and leadership team remuneration	2,743	2,520
Board members' fees	392	394
TOTAL KEY MANAGEMENT PERSONNEL	3,135	2,914

As at 31 July 2017, the leadership team of NZRB included eight members (2016: eight members).

* The 2017 Chief Executive and leadership team remuneration represents a full year of service. In comparison, the 2016 remuneration included three employees who started part-way through the year. Neither the Chief Executive or leadership team members received a remuneration increase in 2017.

9d. OTHER EXPENSES

	2017 \$000	2016 \$000
Auditors remuneration		
- Audit and review services ¹	168	164
- Taxation compliance services	11	11
- Treasury advisory services	3	13
- Other services ²	5	9
Board members ³	392	394
Consultancy ⁴	2,118	2,454
Impairment	287	297
Interest	338	334
Legal	669	818
Merchant	4,066	3,590
Printing and stationery	407	438
Swabbing	1,391	1,259
Travel and accommodation	3,179	2,972
Other operating expenses	2,255	2,088
Less EML costs recovered from gaming ⁵	(1,157)	(747)
TOTAL OTHER EXPENSES ⁶	14,132	14,094

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

2 Other services relates to the review of the gaming financial statements and forecast information for Class 4 relicensing purposes and review of club financial statement template (2016 only).

3 Board fees for the Group include fees paid to the Board members of RIU of \$60,000 (2016: \$66,000) and reimbursed expenses to Board members.

4 Consultancy expenses in 2017 includes \$0.9 million relating to the strategic initiatives.

5 Event Marketing & Logistics (EML) costs recovered from gaming relates to the application of funds from gaming to reimburse certain EML expenses under the NZRB's Racing Authorised Purpose defined under NZRB Class 4 Licence. Refer to note 5.

6 Included within the 2017 total other expenses was \$0.9 million of expenses relating to the strategic initiatives. Refer to note 3.

10. TRANSACTIONS WITH RELATED PARTIES

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

TRANSACTIONS WITH RELATED PARTIES		Transaction value		Balance outstanding		Relationship with Key Management Personnel
ENTITY	TRANSACTION	2017 \$000	2016 \$000	2017 \$000	2016 \$000	
New Zealand Greyhound Association Incorporated	Distributions paid and payable	(22,263)	(22,257)	46	(465)	Mauro Barsi, a Board member of NZRB, is also a Board member of the New Zealand Greyhound Racing Association Incorporated.
	On-course venue services, trackside operations and radio services	3,018	2,878	53	-	
	Other services provided by NZRB	751	854	56	122	
Harness Racing New Zealand Incorporated	Distributions paid and payable	(40,827)	(39,961)	(1,876)	(2,009)	
	On-course venue services, trackside operations and radio services	4,012	4,328	-	-	
	Other services provided by NZRB	514	504	26	32	
New Zealand Thoroughbred Racing Incorporated	Distributions paid and payable	(75,037)	(73,068)	(468)	(458)	Greg McCarthy, a Board member of NZRB, was also a Board member of the New Zealand Thoroughbred Racing Incorporated until April 2016.
	On-course venue services, trackside operations and radio services	6,438	6,975	435	263	
	Other services provided by NZRB	233	244	25	20	
Racing Integrity Unit Limited *	Funding	(6,033)	(5,805)	(578)	(210)	Glenda Hughes, Chair of NZRB, is also Chair of the Racing Integrity Unit Limited.
	Other services provided by NZRB	53	53	303	689	
Auckland Trotting Club	Retail services provided to NZRB	(1,064)	(721)	-	-	Rod Croon, a Board member of NZRB, is the Vice-president of Auckland Trotting Club.
New Zealand Rugby Union Incorporated **	National sports organisations grants	-	(1,214)	-	(97)	Graham Cooney, a Board member of NZRB, was also a Board member of the New Zealand Rugby Union Incorporated until April 2016.
Chapman Tripp **	Legal fees and tax advisory services paid and payable	-	(6)	-	-	Barry Brown, a Board member of NZRB, was a partner of Chapman Tripp until December 2015.

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

** The NZRB Board members have ceased to have an interest in the above entities and therefore, no transactions were recorded in 2017.

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

OPERATING ASSETS AND LIABILITIES

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

What was the working capital position of NZRB?

11. CASH AND CASH EQUIVALENTS

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

The carrying values of cash and cash equivalents approximate their fair values. The maximum credit exposure is limited to the carrying value of cash and call deposits.

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

	2017 \$000	2016 \$000
Cash and cash equivalents - NZ currency	22,671	26,201
Cash and cash equivalents - Betting Accounts and Vouchers Trust	5,009	3,253
Cash and cash equivalents - foreign currencies	1,337	1,353
TOTAL CASH AND CASH EQUIVALENTS	29,017	30,807

The Betting Accounts and Vouchers Trust account balance is not available for operational use by NZRB.

RIU cash and cash equivalents balance at year end was \$0.4 million (2016: \$1.2 million).

12. TRADE AND OTHER RECEIVABLES

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

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

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

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

	2017 \$000	2016 \$000
Trade and other receivables	9,267	11,243
Provision for doubtful debts	(196)	(128)
TOTAL TRADE AND OTHER RECEIVABLES	9,071	11,115

As at 31 July 2017, \$0.6 million of the total trade and other receivables were past due but not impaired (2016: \$0.3 million).

13. OTHER FINANCIAL ASSETS

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

Where industry loans are advanced at an interest rate that is below the market rate for an investment on similar terms and of similar credit quality, the loan's fair value is less than its cost. Consequently, these loans are initially recognised at their fair value rather than cost. Fair value is determined by reference to bank lending rates for loans on similar terms and of equivalent credit quality.

Betting Accounts and Betting Vouchers Trust short-term deposits are funds held in trust to cover the balances of the customer betting account deposits and vouchers liability. The term deposit and cash balance of \$27.0 million at 31 July 2017 (2016: \$25.3 million) is held to cover the total owed to customers of betting account deposits and vouchers liability of \$24.8 million (2016: \$24.5 million). Refer to note 16 for further information regarding NZRB's obligation for these amounts. The deposits and cash balance held in trust are not available for use by NZRB in the ordinary course of business, up to the value of the betting account deposits and vouchers liability (refer to note 2).

Subsequent to initial measurement, all debt instrument financial assets are measured at amortised cost, using the effective interest rate method.

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

	2017 \$000	2016 \$000
Industry loans	2,927	2,615
Term deposits - Betting Accounts and Vouchers Trust	22,000	22,000
Term deposits	15,000	9,000
Other	76	77
TOTAL OTHER FINANCIAL ASSETS	40,003	33,692
Disclosed as:		
Current	37,000	31,000
Non-current	3,003	2,692
TOTAL OTHER FINANCIAL ASSETS	40,003	33,692

Industry Loans

The balance of industry loans is comprised of one loan to RACE Inc. The outstanding balance of the loan granted by NZRB is secured and is repayable in cash. NZRB has a second-ranking charge over the assets of RACE Inc and its subsidiary racing clubs. Bank of New Zealand (BNZ) has the first-ranking charge over these assets. NZRB provided a guarantee to BNZ to the value of \$5.3 million plus up to two years interest and the costs of collection (2016: \$5.3 million). Refer to note 25 for more information.

New Zealand Thoroughbred Racing Incorporated guarantees to cover any shortfall from the amount guaranteed to BNZ and the loan from the NZRB.

	Maturity	Interest rate		Rate type
		2017	2016	
RACE Inc	February 2019, or earlier if called by NZRB	2.75%	3.25%	Variable

It is not expected that this loan will be repaid within the next 12 months and it is therefore classified as a non-current asset.

14. OTHER NON-CURRENT ASSETS

The non-current asset balance of \$2.6 million (2016: \$2.7 million) relates to transition cost associated with the Optimus programme that are capitalised over the term of agreement.

15. TRADE AND OTHER PAYABLES

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

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.

	2017 \$000	2016 \$000
Accruals	6,416	7,602
Amounts payable to Board members	34	30
Employee entitlements	4,393	4,436
Racing code distributions payable	2,298	2,932
Trade payables	13,603	9,848
TOTAL TRADE AND OTHER PAYABLES	26,744	24,848

16. CUSTOMER BETTING ACCOUNT DEPOSITS AND VOUCHERS

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

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

The balance of the customer betting accounts deposit and vouchers liabilities as at 31 July 2017 was \$24.8 million (2016: \$24.5 million). Short-term deposits and cash totalling \$27.0 million (2016: \$25.3 million) is held in trust to cover this liability in the Betting Accounts and Vouchers Trust.

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

17. PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

Finance lease assets are depreciated over the lease term of 10 years.



17. PROPERTY, PLANT AND EQUIPMENT - CONTINUED

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

GROUP	Land and buildings	Leasehold improvements	Computer hardware	Motor vehicles	Operations and trackside equipment	Gaming machines	Other	Work in progress	Total property, plant and equipment
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
AS AT 1 AUGUST 2015									
At cost	3,586	29,870	43,414	9,670	40,682	6,115	6,209	6,469	146,015
Accumulated depreciation	(1,314)	(19,722)	(32,688)	(5,985)	(32,140)	(2,627)	(3,609)	-	(98,085)
CARRYING AMOUNT	2,272	10,148	10,726	3,685	8,542	3,488	2,600	6,469	47,930
Additions	-	2,259	272	580	661	529	321	5,264	9,886
Disposals	(1,342)	(47)	(22)	(37)	-	(34)	-	-	(1,482)
Net transfers between asset classes	-	-	-	-	-	-	-	-	-
Transferred from work in progress	-	2,891	1,086	335	1,530	1,346	71	(7,259)	-
Transferred to assets held for sale	-	-	-	-	-	-	-	-	-
Depreciation for the year	(131)	(2,864)	(3,691)	(561)	(2,111)	(1,459)	(583)	-	(11,400)
Impairment losses	-	(35)	(16)	(20)	(5)	-	-	-	(76)
CARRYING AMOUNT AT 31 JULY 2016	799	12,352	8,355	3,982	8,617	3,870	2,409	4,474	44,858
At cost	1,546	34,685	49,023	10,046	42,863	7,870	6,598	4,474	157,105
Accumulated depreciation	(747)	(22,333)	(40,668)	(6,064)	(34,246)	(4,000)	(4,189)	-	(112,247)
CARRYING AMOUNT	799	12,352	8,355	3,982	8,617	3,870	2,409	4,474	44,858
Additions	3	1,983	403	516	253	690	27	4,796	8,671
Disposals	(739)	(23)	(35)	(130)	-	(34)	-	-	(961)
Net transfers between asset classes	(39)	39	-	39	(39)	6	-	(548)	(542)
Transferred from work in progress	13	1,532	549	208	167	758	382	(3,611)	(2)
Transferred to assets held for sale	-	-	(1)	(1,004)	(215)	-	-	-	(1,220)
Depreciation for the year	(24)	(2,903)	(3,516)	(726)	(2,003)	(1,509)	(573)	-	(11,254)
Impairment losses	(13)	(191)	(12)	(36)	(8)	(5)	(1)	-	(266)
CARRYING AMOUNT AT 31 JULY 2017	-	12,789	5,743	2,849	6,772	3,776	2,244	5,111	39,284
At cost	-	36,903	48,282	8,302	42,030	8,756	6,527	5,111	155,911
Accumulated depreciation	-	(24,114)	(42,539)	(5,449)	(35,262)	(4,980)	(4,283)	-	(116,627)
CARRYING AMOUNT	-	12,789	5,743	2,853	6,768	3,776	2,244	5,111	39,284

At 31 July 2017 the contractual commitment for acquisition of property, plant and equipment for the Group was \$1.1 million (2016: \$2.0 million).

The NZ Live finance lease of \$2.7 million as at 31 July 2017 (2016: \$3.1 million) is included in Operations and Trackside Equipment.

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

18. INTANGIBLE ASSETS

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

NZRB develops specialised software for its own use in the business. The cost of internally generated software comprises all directly attributable costs necessary to create and prepare the asset to be capable of operating in the manner intended by management, including direct labour costs.

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

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

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

	Software	Broadcasting licences	Other intangible assets	Work in progress	Total intangible assets
	\$000	\$000	\$000	\$000	\$000
AS AT 1 AUGUST 2015					
At cost	61,001	3,391	620	1,605	66,617
Accumulated amortisation	(47,982)	(1,833)	(190)	-	(50,005)
CARRYING AMOUNT	13,019	1,558	430	1,605	16,612
Additions	987	-	13	1,891	2,891
Net transfers between asset classes	-	-	-	-	-
Transferred from work in progress	2,591	-	10	(2,601)	-
Amortisation for the year	(4,323)	(124)	(104)	-	(4,551)
Impairment losses	(221)	-	-	-	(221)
CARRYING AMOUNT AT 31 JULY 2016	12,053	1,434	349	895	14,731
At cost	64,579	3,391	643	895	69,508
Accumulated amortisation	(52,526)	(1,957)	(294)	-	(54,777)
CARRYING AMOUNT	12,053	1,434	349	895	14,731
Additions	1,915	-	179	1,567	3,661
Net transfers between asset classes	(6)	-	-	548	542
Transferred from work in progress	981	-	504	(1,483)	2
Amortisation for the year	(4,636)	(123)	(193)	-	(4,952)
Impairment losses	(1)	-	-	-	(1)
CARRYING AMOUNT AT 31 JULY 2017	10,306	1,311	839	1,527	13,983
At cost	61,331	2,925	1,326	1,527	67,109
Accumulated amortisation	(51,025)	(1,614)	(487)	-	(53,126)
CARRYING AMOUNT	10,306	1,311	839	1,527	13,983

At 31 July 2017, work in progress relates mainly to software (2016: software).

At 31 July 2017 the contractual commitment for acquisition of software and other intangibles was \$14.1 million (2016: nil).

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

19. NON-CURRENT ASSETS AND LIABILITIES HELD FOR SALE

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

As at 31 July 2017, the non-current assets and liabilities classified as held for sale relate to the transfer of the Event Marketing & Logistics (EML) operation to The Races Limited Partnership, which is a limited liability partnership between Harness Racing New Zealand, New Zealand Thoroughbred Racing and The Races Limited. The effective date of transfer is 1 August 2017. There were no assets held for sale as at 31 July 2016.

OTHER LIABILITIES INCURRED BY NZRB

20. 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 to be derivative financial instruments for financial reporting purposes. Unresulted turnover is initially measured at fair value on the date the bet is placed. Fair value is the amount placed on the bet. Subsequently, derivative financial instruments are re-valued to their fair value at each reporting date. NZRB has determined that the value of the balance upon initial recognition approximates fair value at 31 July 2017.

	2017 \$000	2016 \$000
Jackpot retentions	373	-
Finance lease	3,029	3,315
Unclaimed dividends	2,946	2,893
Unresulted turnover	1,595	1,931
TOTAL OTHER FINANCIAL LIABILITIES	7,943	8,139
Disclosed as:		
Current	5,232	5,111
Non-current	2,711	3,028
TOTAL OTHER FINANCIAL LIABILITIES	7,943	8,139

Finance Lease

On 1 September 2014, NZRB recognised a finance lease asset and corresponding liability for a value of \$3.8 million, payable over 10 years. As at 31 July 2017, the carrying amount of the liability is \$3.0 million (2016: \$3.3 million). The finance lease relates to broadcasting equipment used by NZRB in relation to the 10 year broadcast service contract between NZRB and NZ Live.

FINANCE LEASE	2017 \$000	2016 \$000
Future minimum lease payments repayable as follows:		
Within one year	511	501
Later than one year but no later than five years	2,142	2,105
Later than five years	1,168	1,717
	3,821	4,323
Less future finance costs	(792)	(1,008)
PRESENT VALUE OF LEASE PAYMENTS	3,029	3,315
Present value of lease payments repayable as follows:		
Within one year	318	287
Later than one year but no later than five years	1,618	1,476
Later than five years	1,093	1,552
TOTAL VALUE OF LEASE PAYMENTS	3,029	3,315

21. PROVISIONS

Provisions are recognised when the following three conditions are met:

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

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

The provisions of the Parent are materially consistent with that of the Group.

	Make good	Employee benefit	Redundancy	Undistributed gaming net profit	Animal welfare	Total provisions
	\$000	\$000	\$000	\$000	\$000	\$000
BALANCE AT 31 JULY 2016	1,108	692	1,349	774	100	4,023
Additional provisions	-	58	-	1,568	50	1,676
Provisions released	(40)	(6)	(466)	-	-	(512)
Amounts used	(53)	(53)	(883)	(774)	-	(1,763)
BALANCE AT 31 JULY 2017	1,015	691	-	1,568	150	3,424

Disclosed as:

	2017 \$000	2016 \$000
Current	2,372	2,984
Non-current	1,052	1,039
TOTAL PROVISIONS	3,424	4,023

Provision	Description of balance	Expected use
Make good	Restoring leased premises to their original condition at the end of the lease term. Costs are included within the carrying amount of Leasehold improvement assets. The actual payment dates and costs will be known once each lease reaches its expiry date and the extent of the corresponding make-good is ascertained.	Expiry dates up to 2024
Employee benefit	Long service leave entitlements and retirement gratuity entitlements on legacy employment contracts.	Expiry dates up to 2037
Undistributed gaming net profit	Class 4 gaming net profit must be distributed for authorised purposes and cannot be retained within the business. NZRB is obligated to distribute this provision within 90 days.	First quarter of 2018
Animal welfare	Animal welfare fund setup to promote and enhance the NZ Racing Industry. It accumulates at \$50,000 per annum. The codes can apply to request funds for animal welfare initiatives.	Unknown

RISK MANAGEMENT

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

How did NZRB manage its financial risks?

22. CATEGORIES OF FINANCIAL INSTRUMENTS

NZRB classifies its financial assets in the following categories: held to maturity, loans and receivables and fair value through profit or loss (FVTPL). The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

HELD-TO-MATURITY

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

LOANS AND RECEIVABLES

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

FINANCIAL LIABILITIES AT AMORTISED COST

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

FINANCIAL ASSETS/LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

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

ASSETS

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

TOTAL FINANCIAL ASSETS

Total non-financial assets

TOTAL ASSETS

2017			2016			
Held-to-maturity	Loans and receivables	Total	Held-to-maturity	Loans and receivables	Fair value through Profit or Loss	Total
\$000	\$000	\$000	\$000	\$000	\$000	\$000
-	29,017	29,017	-	30,807	-	30,807
-	-	-	-	-	525	525
-	9,071	9,071	-	11,115	-	11,115
37,000	3,003	40,003	31,000	2,692	-	33,692
37,000	41,091	78,091	31,000	44,614	525	76,139
		58,581				63,778
		136,672				139,917

LIABILITIES

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

TOTAL FINANCIAL LIABILITIES

Total non-financial liabilities

TOTAL LIABILITIES

2017			2016	
Financial Liabilities at amortised cost	Fair value through Profit or Loss	Total	Financial Liabilities at amortised cost	Total
\$000	\$000	\$000	\$000	\$000
26,744	-	26,744	24,848	24,848
24,779	-	24,779	24,521	24,521
4,541	-	4,541	4,824	4,824
3,029	-	3,029	3,315	3,315
-	214	214	-	-
61	-	61	-	-
373	-	373	-	-
59,527	214	59,741	57,508	57,508
		7,623		8,640
		67,364		66,148

23. RISK MANAGEMENT

CAPITAL RISK MANAGEMENT

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

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

FINANCIAL RISK MANAGEMENT

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

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

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

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



23. RISK MANAGEMENT - CONTINUED

1.0 LIQUIDITY RISK MANAGEMENT

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

As NZRB's revenues are principally transactions involving immediate cash receipts, short-term liquidity is covered by trading receipts and highly liquid bank deposits. NZRB manages longer dated liquidity risk by maintaining adequate cash reserves of liquid short-term deposits to satisfy anticipated capital expenditure and distribution requirements.

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

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

FINANCIAL LIABILITIES	Carrying amount	On demand	Less than 3 months	3 months to 1 year	1-5 years	+5 years	Total contractual cash flows
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
2017							
Trade and other payables	26,744	-	26,744	-	-	-	26,744
Customer betting deposits and vouchers	24,779	24,779	-	-	-	-	24,779
Unclaimed dividends and unresulted turnover	4,541	2,946	1,595	-	-	-	4,541
Finance lease	3,029	-	127	384	2,142	1,168	3,821
Derivative liabilities (FVTPL)	214	-	103	4	107	-	214
Liabilities held for sale	61	-	61	-	-	-	61
Other financial liabilities	373	-	373	-	-	-	373
Total notional cash outflows for recognised financial liabilities	59,741	27,725	29,003	388	2,249	1,168	60,533
<i>Financial guarantees (maximum amount payable)</i>							
Industry loan guarantees (note 25)	-	5,286	-	-	-	-	5,286
Other third party guarantees (note 25)	-	6,931	-	-	-	-	6,931
TOTAL NOTIONAL CASH OUTFLOWS	59,741	39,942	29,003	388	2,249	1,168	72,750

FINANCIAL LIABILITIES	Carrying amount	On demand	Less than 3 months	3 months to 1 year	1-5 years	+5 years	Total contractual cash flows
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
2016							
Trade and other payables	24,848	-	24,848	-	-	-	24,848
Customer betting deposits and vouchers	24,521	24,521	-	-	-	-	24,521
Unclaimed dividends and unresulted turnover	4,824	2,893	1,931	-	-	-	4,824
Finance lease	3,315	-	124	377	2,105	1,717	4,323
Total notional cash outflows for recognised financial liabilities	57,508	27,414	26,903	377	2,105	1,717	58,516
<i>Financial guarantees (maximum amount payable)</i>							
Industry loan guarantees (note 25)	-	5,286	-	-	-	-	5,286
Other third party guarantees (note 25)	-	7,958	-	-	-	-	7,958
TOTAL NOTIONAL CASH OUTFLOWS	57,508	40,658	26,903	377	2,105	1,717	71,760

As at 31 July 2017, it is not expected that the financial guarantees will be called.

23. RISK MANAGEMENT - CONTINUED

2.0 CREDIT RISK

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

The maximum exposure is equal to the carrying amount of the financial assets, as set out in note 22. All industry loans are fully secured. Refer to note 25 for further disclosure on the guarantees.

	2017 \$000	2016 \$000
Total financial assets (refer to note 21)	78,091	76,139
Unrecognised credit exposures:		
Salaries and other short-term employee benefits	5,286	5,286
Termination expenses	6,931	7,958
Unrecognised credit exposures:	12,217	13,244
TOTAL CREDIT EXPOSURES	90,308	89,383

Concentrations of credit risk

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

	2017 %	2017 \$000	2016 %	2016 \$000
Trade and other receivables				
(Industry and geographical concentrations)				
Australian betting agencies	25.5%	2,312	21.8%	2,426
New Zealand retail TAB outlets	34.4%	3,117	29.4%	3,271
Bank and other banking institutions	8.2%	749	23.0%	2,556
Other New Zealand trade and other receivables	31.9%	2,892	25.8%	2,862
TOTAL TRADE AND OTHER RECEIVABLES	100.0%	9,070	100.0%	11,115

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

To mitigate the credit risk of certain receivables, NZRB's practice is to require either bank guarantees or cash bonds from non-NZRB owned retail outlets of a value generally greater than a week's settlement.

3.0 FOREIGN CURRENCY EXCHANGE RATE RISK

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

4.0 INTEREST RATE RISK

NZRB is exposed to interest rate risk through its industry loans, cash and call account balances, short-term deposits and corporate bonds held. The carrying values of these exposures are detailed in the credit risk section of this note at 2.0 above.

As at 31 July 2017, if the interest rates had increased/decreased by 0.5% (50 basis points), with all other variables held constant, the net surplus before distributions would have been \$0.3 million (2015: \$0.3 million) higher/lower as a result of higher/lower net interest receipts. There would also be a corresponding increase/decrease in equity.

What were NZRB's unrecognised transactions?

24. COMMITMENTS

24a OPERATING LEASE COMMITMENTS

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

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

For the year ended 31 July 2017 \$7.6 million was recognised as an expense within premises and equipment expenses in profit or loss in respect of operating leases (2016: \$7.1 million).

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

	2017 \$000	2016 \$000
Within one year	7,687	6,951
Later than one year but no later than five years	18,672	17,756
Later than five years	4,011	6,065
TOTAL OPERATING LEASE COMMITMENTS	30,370	30,772

24b OTHER NON-CANCELLABLE OPERATING COMMITMENTS

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

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

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

Non-cancellable operating commitments are payable as follows:

	2017 \$000	2016 \$000
Within one year	20,080	18,105
Later than one year but no later than five years	50,749	34,410
Later than five years	45,457	27,221
TOTAL OTHER NON-CANCELLABLE OPERATING COMMITMENTS	116,286	79,736

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

25. CONTINGENT LIABILITIES

Where NZRB enters into financial guarantee contracts to guarantee the indebtedness of third party entities, NZRB considers these to be insurance arrangements under NZ IFRS 4 *Insurance Contracts* and accounts for them as such. A liability is recognised when it becomes probable that NZRB will be required to make a payment under the guarantee. If it becomes probable, NZRB will recognise an expense and corresponding liability based on estimates of future cash flows under the contract. NZRB assesses at the end of each reporting period whether its recognised liability is adequate in comparison to the estimates of future cash flows under the contract. If that assessment shows that the carrying amount of the liability is inadequate, the entire deficiency shall be recognised in profit or loss.

INDUSTRY LOAN GUARANTEE

On 5 February 2009, NZRB provided a guarantee to the BNZ in relation to Racing at Awapuni, Otaki and Trentham Combined Enterprises Incorporated (RACE Inc) to the value of \$5.3 million plus up to two years interest and the costs of collection (2016: \$5.3 million). New Zealand Thoroughbred Racing Incorporated have provided a back-to-back guarantee to NZRB covering the amounts guaranteed to BNZ. Refer to note 13.

OTHER THIRD PARTY GUARANTEES

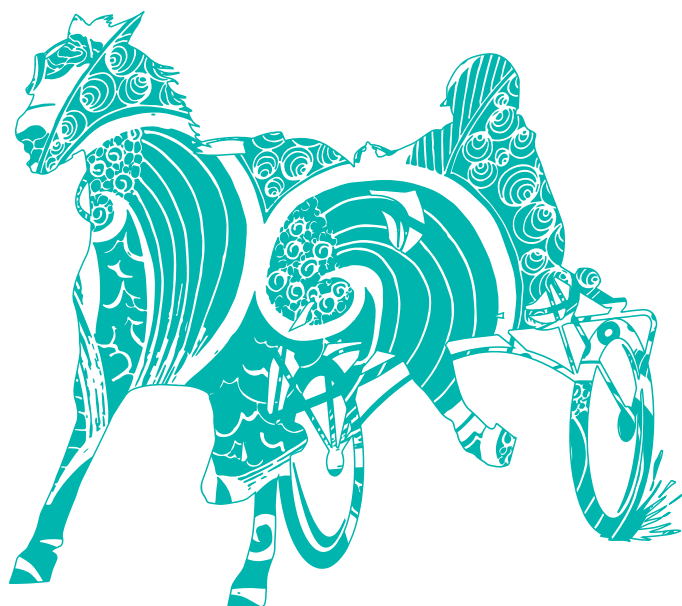
On 1 April 2014, NZRB provided a guarantee to Windsor Park Leasing Limited over the payments of the NZ Live leased premises, relating to NZRB broadcasting activities. As at 31 July 2017, the amount payable under this guarantee has reduced to \$2.9 million (2016: \$3.3 million).

In 2015, NZRB assigned two leased properties to third parties, whereby NZRB continues to be liable for any outstanding rent in the event of default. As at 31 July 2017, the total amount payable under these agreements was \$4.0 million (2016: \$4.6 million). In the event of default by the third party, the landlord and NZRB must undertake their best endeavours to secure a new tenant to mitigate losses.

26. SUBSEQUENT EVENTS

On 29 August 2017 NZRB entered into a revolving credit facility of \$25 million for an initial term of three years. Interest is payable based on prevailing market rate plus a margin.

On 1 August 2017 the Event Marketing & Logistics (EML) operations were transferred to The Races Limited Partnership (RLP), which is a limited liability partnership between New Zealand Thoroughbred Racing, Harness Racing New Zealand and The Races Limited. The underlying assets and liabilities are classified as held for sale as at balance date (refer note 20).



SUPPLEMENTARY INFORMATION - REPORTING AGAINST BUDGET

FOR THE YEAR ENDED 31 JULY 2017

STATEMENT OF FINANCIAL PERFORMANCE	ACTUAL 31 JULY 2017	UNAUDITED BUDGET 31 JULY 2017	VARIANCE
	\$000	\$000	\$000
BETTING AND GAMING TURNOVER	2,680,854	2,752,331	(71,477) ●
REVENUE			
Net betting revenue	277,490	279,837	(2,347) ●
Net gaming revenue	24,835	24,847	(12) ●
NZ racing revenue shown overseas	20,616	21,616	(1,000) ●
Other revenue	25,756	25,200	556 ●
TOTAL REVENUE	348,697	351,500	(2,803) ●
Turnover related expenses	68,401	66,203	2,198 ●
PROFIT CONTRIBUTION	280,296	285,297	(5,001) ●
OPERATING EXPENSES			
Broadcasting	9,727	9,989	(262) ●
Communication and technology expenses	17,631	16,785	847 ●
Premises and equipment expenses	14,924	14,612	312 ●
Staff expenses	63,689	63,961	(272) ●
Depreciation and amortisation	16,206	16,107	99 ●
Foreign exchange loss / (gain)	(29)	-	(29) ●
Other operating expenses	14,132	15,844	(1,712) ●
TOTAL OPERATING EXPENSES	136,280	137,297	(1,017) ●
NET PROFIT BEFORE DISTRIBUTIONS	144,016	148,000	(3,984) ●
Strategic initiatives investments	4,595	-	4,595 ●
Gain on sale of Hamilton building	(611)	-	(611) ●
UNDERLYING NET PROFIT BEFORE DISTRIBUTIONS	148,000	148,000	- ●

Favourable = ● Unfavourable = ●

SUPPLEMENTARY INFORMATION - REPORTING AGAINST BUDGET (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2017

DISTRIBUTIONS	ACTUAL 31 JULY 2017	UNAUDITED BUDGET 31 JULY 2017	VARIANCE
	\$000	\$000	\$000
BETTING			
Distributions to racing codes	137,563	136,200	1,363
TOTAL DISTRIBUTIONS FROM BETTING NET PROFIT	137,563	136,200	1,363
(Loss)/Profit retained for reinvestment distribution	(3,737)	2,300	(6,037)
BETTING NET PROFIT	133,826	138,500	(4,674)
GAMING			
Distributions applied to racing industry	9,719	9,300	419
Distributions applied to NZRB race form publication expenses	1,398	2,000	(602)
Distributions applied to NZRB EML expenses	1,157	900	257
Distributions to sporting external bodies	3,173	3,100	73
Distributions from prior year undistributed gaming surplus	(774)	-	(774)
TOTAL DISTRIBUTIONS FROM GAMING NET PROFIT	14,673	15,300	(627)
Provision for undistributed gaming surplus	1,568	-	1,568
GAMING NET PROFIT	16,241	15,300	941
RIU			
Impact of consolidation of RIU	(17)	-	(17)
RIU distribution	(6,034)	(5,800)	(234)
TOTAL DISTRIBUTIONS	146,202	145,700	502
TOTAL NET PROFIT	144,016	148,000	(3,984)

SUPPLEMENTARY INFORMATION - REPORTING AGAINST BUDGET (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2017

STATEMENT OF FINANCIAL POSITION	ACTUAL 31 JULY 2017	UNAUDITED BUDGET 31 JULY 2017	VARIANCE
	\$000	\$000	\$000
CURRENT ASSETS			
Cash and cash equivalents	29,017	30,000	(983)
Trade and other receivables	9,071	11,800	(2,729)
Non-current assets held for sale	1,220	-	1,220
Other financial assets	37,000	32,500	4,500
Other current assets	1,498	2,300	(802)
TOTAL CURRENT ASSETS	77,806	76,600	1,206
NON-CURRENT ASSETS			
Property, plant and equipment	39,284	45,400	(6,116)
Intangible assets	13,983	15,500	(1,517)
Other financial assets	3,003	2,600	403
Other non-current assets	2,596	-	2,596
TOTAL NON-CURRENT ASSETS	58,866	63,500	(4,634)
TOTAL ASSETS	136,672	140,100	(3,428)
CURRENT LIABILITIES			
Trade and other payables	26,744	25,100	1,644
Current liabilities held for sale	61	-	61
Customer betting account deposits and vouchers	24,779	24,200	579
Other financial liabilities	5,232	5,400	(168)
Derivative liabilities	214	-	214
Taxation payable	4,199	3,800	399
Provisions	2,372	1,700	672
TOTAL CURRENT LIABILITIES	63,601	60,200	3,401
NON-CURRENT LIABILITIES			
Other financial liabilities	2,711	3,300	(589)
Provisions	1,052	1,200	(148)
TOTAL NON-CURRENT LIABILITIES	3,763	4,500	(737)
TOTAL LIABILITIES	67,364	64,700	2,664
NET ASSETS/TOTAL EQUITY	69,308	75,400	(6,092)

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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
Alistair Ryan
Independent Member

RACING BOARD LEADERSHIP TEAM

John Allen
Chief Executive Officer
Patricia Bolger
General Manager - People
Shaun Brooks
General Manager - Finance
Stephen Henry
General Manager - Services
Andy Kydd
General Manager – Media & Content
Glen Saville
General Manager – Betting

Dianna Taylor
General Manager – Technology

Gary Woodham
General Manager – Customer

SOLICITORS

Minter Ellison Rudd Watts
Wellington

AUDITORS

PwC
Wellington

BANK

ANZ Limited
Wellington