NEW ZEALAND
RACING BOARD

STATEMENT OF INTENT
2017-2019

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

CONTENT

IN SUMMARY

- The New Zealand Racing Board (NZRB) needs to invest to improve profitability while operating in a volatile and competitive environment.
- The domestic racing industry is in decline and there is wide-spread recognition that the current incremental growth is not sufficient to achieve the change necessary to achieve an enduring and sustainable industry.
- Long term under-investment, both in NZRB and the wider industry, has been the key cause of the challenges.
- Over the next 24 months NZRB will be driving major change in order to address these challenges.
- NZRB will also continue to work with the Codes to explore broader strategic options that may provide improved returns to the industry.
- The initiatives already identified by NZRB will improve NZRB's long-term profitability by more than $50 million per year once implemented, and require an investment of ~$60-75 million.
- Total Net Profit is forecast to lift from $148.0 million in 2016/17 to $164.5 million by 2018/19, not including the impact of the currently identified key strategic investments, other than the anticipated increases in revenue due to new race fields legislation.
- NZRB will be considering various options to fund these planned investments including external financing arrangements and partnering given the limited reserves available on NZRB's balance sheet and the need to minimise the impact on the Codes in the short term.
- NZRB expects actual Net Profit, once the cost of the planned strategic initiatives is included, to be lower than this forecast. However, NZRB will insulate the industry from this reduction while funding the investments required, with distributions in 2016/17 to increase to $136.2 million. Distributions will be revisited each year and we expect that as benefits from NZRB's future investment strategy are realised, we will be in a position to lift distributions.
- Any profit retained for reinvestment and/or distribution which is not spent in the relevant year will be allocated at the discretion of the Board at the end of that year, and we anticipate increases to distributions will be made as a result.
- NZRB is acutely aware of the fine balance between providing the industry with an assurance of funding in the short term to maintain the industry, while investing in longer-term change to build a sustainable future for all.
- This may be a challenging message for the industry and the impact of what we have already started will be far reaching, but we have an overarching requirement to protect the long-term interests of the industry and success depends on everyone in the industry getting behind the change that is necessary to deliver the future.

FOREWORD FROM THE CHAIR

The research paints a clear picture. It's well understood that major change is required quickly for both NZRB and the industry, and it is time to get on with the job. Over the past decade there has been much ongoing discourse about the unsustainability of the industry in its current form and the need to make major changes in the way we do our business, there is wide acceptance of the need for change.

Recent detailed economic analysis has confirmed what has been discussed for more than a decade – the domestic racing and betting industries are unsustainable in their current forms. While racing still attracts talented and passionate people and remains a significant contributor to the New Zealand economy the domestic industry is running at a loss and is reliant on offshore income streams to keep it afloat.

When change needs to occur there is never complete agreement as to the type, method and priority of such change. The Board accepts that each Code will have differing views in these areas and it will be the Board's responsibility to consider all of the views and then take the action they consider best for the whole industry. NZRB will continue to work with the Codes to explore broader strategic options that may provide improved returns to the industry.

We are at a critical point where industry leaders and participants must commit to addressing major decisions on industry governance and structural change. At the same time, NZRB needs to invest, innovate and deliver a more competitive business or service offering for our current and future customers, and by so doing, continue to generate adequate returns to sustain the industry.

CODE DISTRIBUTIONS

The 2016/17 budget forecasts a total Net Profit of $148.0 million for the year, made up of $138.5 million Betting Net Profit and $15.3 million Gaming Net Profit, less $5.8 million to fund the RIU which is consolidated under Net Profit. These figures do not include the investment we anticipate making during the year in the key strategic initiatives, which will likely reduce profits in the short term.

Total distributions to the three racing Codes for 2016/17 will increase by $1.3 million to $136.2 million, from the budgeted level this year. Distributions are being held lower than total Net Profit (excluding the costs for strategic investments) as a temporary measure necessary to enable NZRB to invest to transform into the type of business that can generate the profits required to increase future distributions. Distributions for 2017/18 and 2018/19 are estimated to increase by $5.3 million to $141.5 million in 2017/18 and a further $2.6 million to $144.1 million in 2018/19 based on anticipated revenue/profit due to new race fields legislation, and these distributions will be reviewed on an annual basis with the expectation they will increase further as the benefits of NZRB's other initiatives are realised. The Board will also consider how any unspent retained profit will be allocated at the end of each financial year, and anticipates further potential increases to distributions as a result.

If we are to achieve the growth required to sustain the industry, NZRB needs to substantially increase the number of customers betting with us over the next few years. To do this we need to continue to innovate and become more competitive. The Board is fully committed to the five initiatives that NZRB leadership have identified as critical to building a sustainable betting business while enabling the three Codes to overcome current and future challenges - addressing the impact of offshore betting, implementing a new fully automated Fixed Odds Betting (FOB) platform, optimising the racing calendar, developing our channel strategy and investing in customer growth. Of course, NZRB is open to considering any potentially better options that may emerge.

INTERNAL COSTS

Cost vigilance remains a key focus for the Board now and into the future. Savings have already been achieved in a number of areas and will include further rationalisation of the NZRB property portfolio, with this work programme already delivering $3.2 million in cost savings on an annual basis. Restructuring of employment incentives with the removal of senior staff bonuses and a reduction in contractors have further illustrated our commitment to drive costs lower. The savings that we have made in these areas have been reinvested into the business - in our underlying infrastructure and IT platforms to provide improvements in disaster recovery, business interruption preparedness and scalability resulting in overall operating expenses increasing due to this important remediation activity. Progress on improving revenue and reshaping the NZRB's cost structure is a key priority and will include a review of our retail, digital and telephony channels and the delivery of a business case for the implementation of an automated FOB platform. Detailed assessment of potential providers of the FOB platform is underway, and the Board will be considering this business case in the context of the industry's broader strategic options.

WORKING WITH INDUSTRY

While these longer term transformation initiatives are being finally evaluated and, where applicable advanced, NZRB also intends to make some short term gains. Our increased outreach to politicians and other stakeholders has seen NZRB driving the reshaping of legislation which impacts on the industry. This includes constructive discussions between the NZRB, the IRD and our breeders around tax issues, approaching the Ministers of Local Government and Conservation about modernising the Reserves Act and thereby allowing greater flexibility in the use of racecourse reserve land, and critical work on new earthquake building standards that affect so many of our regional clubs. Our discussions with Tabcorp are making progress to the point that we have concluded a conditional term sheet that covers the key commercial terms of the proposed future agreements that should be in place early in the new season.

The welfare of our people and animals is paramount, and remains a key priority for the Board – the importance of this cannot be understated and is critical to the integrity of our industry. NZRB is working closely with the Codes and clubs on meeting the increased health and safety responsibilities of the new Act. We also continue to work closely with the RIU, the Judicial Control Authority (JCA) and all industry participants on ensuring our animals are treated humanely and any misconduct is quickly identified and remedied.

There is no quick fix to achieve the kind of transformation we are talking about. If there was, we would not have reached this point in the first place. We as an industry have an opportunity to drive forward change that has only been talked about previously.

Glenda Hughes
Chair

INTRODUCTION FROM THE CEO

The New Zealand racing industry has enjoyed many individual successes over the past season. The achievements of our animals, breeders, jockeys, drivers and trainers have underpinned the New Zealand racing industry's place as a major employer and contributor to the national and regional economies. Ours is an industry that deserves domestic and international support and investment. However, while there is great promise, there are persistent and continuing challenges which must be addressed if we are to capitalise on this success and achieve our full potential.

These challenges are well known. The reality is our domestic industry is in decline. Multiple reports, some going back decades, have identified the systemic issues in the industry. I have had numerous discussions with many people across the industry, and there is wide-spread recognition that the current incremental growth is not sufficient to drive the change necessary to achieve an enduring and sustainable industry.

Long-term under-investment, both in NZRB and the wider industry, has been a key cause of these challenges. We are now faced with systems and infrastructure so outdated, and sometimes even redundant, that our ability to operate in a competitive, vibrant industry is severely hamstrung.

We are facing the need to invest while operating in a highly volatile and competitive environment. Gross betting margin continues to decline (from 15.8% in 2015 to 15.1% in 2016) as more customers shift from tote to fixed odds betting and we see phenomenal increases in lower-margin in-play sports betting – up 94% in the past year. The growing importance of sports betting also increases our vulnerability to the timing and frequency of major sporting tournaments.

NZRB can no longer shy away from these challenges - over the next 24 months we will be driving major change in order to address them. Change that will support the rationalisation and intensification in the use of our infrastructure at all levels (NZRB, Code and club), deliver better facilities, more consistent and competitive racing, and change in the way in which NZRB generates its profits and how they are returned to the industry.

The investments we are making will improve long-term profitability by at least $50 million per year, improve our competitiveness, grow our customer base and lower our cost base. Without including any impact of the key strategic initiatives, other than the anticipated increases in revenue due to new race fields legislation, total Net Profit is forecast to increase from $148.0 million in 2016/17 to $164.5 million by 2018/19.

We have already taken the first steps on the journey. We have focused on our costs, restructuring our executive for better operational alignment and identifying opportunities to rationalise our property portfolio, freeing up cash to support investment in core technology such as the Optimus programme, designed to provide a foundation for further technological advances. We have continued to grow our customer base, both in new customers and retained. And we are well advanced with longer-term significant programmes of work which build on these foundations.

CUSTOMERS AND COMPETITIVENESS

Quite simply, in order to grow Net Profit, we need to drive even greater customer growth. The onus is on us to remain relevant with our customers in a rapidly changing, highly competitive international market. This will not be easy. Our international competitors are investing heavily to attract customers both in their home jurisdictions and abroad. Australian betting businesses are consistently spending greater than 10% of revenue in customer acquisition and retention, and activities to transform their operating models. Compare this with an equivalent rate of 6-7% of revenue at NZRB, and the head start we are giving our competitors becomes apparent, but we are still in the race.

The growth we have experienced in customer numbers is encouraging – new accounts are up 23% on last year while active accounts are up 11%. Digital channels now account for a massive 87% of account turnover and growth in mobile channels continues to climb – up 43% compared to last year. The indications are that trend is set to continue and over the next four to five years 90% of customers placing a bet will do so through their mobile phones.

To respond to international competition and the increasing volatility of our earnings, our customer base needs to be broader and firmer. We've been doing a lot of work to understand what our customers value and we are designing a range of products that will engineer and deliver that value. Retail has an important part to play in supporting our brand, in education, community presence and providing a social context for betting. We need to ensure the retail network is positioned to support further growth making betting a more inclusive and enjoyable pastime.

THE FUTURE IS DIGITAL

If NZRB is to grow our customer base beyond our traditional market segments we need to be where our customers are, and increasingly they are occupying a digital world. Be it online or via a mobile device, our customers are digitally savvy and increasingly discerning in their expectations in this space. The next generation of bettors is one that has grown up with speed, convenience, hyper-personalisation and efficiency as standard. What has worked in the past will no longer suffice. They will need an entirely new betting experience, one that has to be fun and entertaining, and it must be digital.

We also know that some of the most significant uptake in the use of digital devices is in the older age brackets, and we must ensure our digital offering meets the needs of this important customer base as well. The movement is clear, and in order to attract and keep all of these customers we need to take a fresh approach to product design and digital development. We have to invest in technology that will make betting convenient, simple, fast and enjoyable.

KEY STRATEGIC INITIATIVES

As we move into 2016/17 and beyond, we've prioritised a small number of major initiatives that are critical in further transforming NZRB and generating profits the industry requires to build a long-term sustainable future.

The outcome of these initiatives must deliver:

- Significantly enhanced profitability within NZRB (we anticipate this to be ~$50-55m p.a.).
- A revised distribution model to Codes which we expect to include both a product fee (and product KPI) component, and a profit distribution component.
- Stronger alignment between the New Zealand Racing Board and the wider industry.
- A lower cost NZRB operating model driven off digital technology and a more focused retail presence.
- A significantly larger customer base – at least double the number of account customers than we have presently.
- Enhanced international and domestic investment in the industry.

Our ambition is to create a domestic industry which is strong, internationally competitive, attractive to investors and owners and which can provide a sustainable economic return to industry participants.

While we have identified these key strategic initiatives, we will also be working with industry to consider any other strategic options and their potential benefit to the industry.

CAPITAL INVESTMENT

Business cases for these major initiatives will be delivered to the Board over the next six months, but what is clear is that in order to fund them and continue to overhaul our infrastructure, significant capital investment is needed. We estimate the level of investment required is ~$60-75 million over the next three years. By implementing these projects we will be able to enhance NZRB's performance and thereby improve the profitability required to increase future distributions that we anticipate will equate to an additional ~$50-55 million per year in annualised Net Profit following the implementation of the strategic initiatives.

PROJECT	INVESTMENT	ANNUALISED PROFIT	AVERAGE PAYBACK PERIOD (YEARS)
Customer & Channel Strategy	~$30-37 million	~$16-17 million p.a.	~2-3 years
Offshore Betting	~$0.5-1.0 million	~$15-16 million p.a.	< 1 year
Optimise the Calendar	~$1.0-2.0 million	~$2-3 million p.a.	< 1 year
Fixed Odds Betting Platform	~$29-35 million	~$17-19 million p.a.	~2-3 years
Total	**~$60-75 million**	**~$50-55 million p.a.**	

NOTES:

1. The above figures are indicative estimates only and will be subject to Board approval.
2. The 'Investment' and 'Annualised Profit' figures include project specific OPEX and CAPEX.
3. The 'Average Payback Period' is calculated on a 'cash basis' and based on annualised profit contribution.
4. Channel Strategy and FOB Platform investment includes upgrades required on IT infrastructure.
5. Offshore Betting revenue is an estimate drawn from the Working Group Final Report, October 2015.
6. Benefits from Optimise the Calendar are anticipated to be largely captured across the industry.

NZRB could look to fully fund these initiatives through profit retention, but this would require an unsustainable reduction in Code distributions. To minimise the impact on the Codes, there will be a small increase in distributions for 2016/17 to $136.2 million. We expect our actual distributable profit to be below this figure once unbudgeted project costs (currently estimated at $6-8 million excluding capital) are factored in.

We have estimated increases to Code distributions in 2017/18 and 2018/19 due to the anticipated impact of new race fields legislation, and we will revisit distributions each year and expect that as benefits from the investment flow we will be in a position to lift distributions further. In the meantime NZRB will insulate the industry from the impact of the investment required over this period.

We note that by increasing 2016/17 distributions to the three racing Codes to $136.2 million, NZRB will effectively retain $2.3 million (of Betting profits) in the 2016/17 Budget to apply against the investment programme. Distributions to the racing Codes will be reviewed annually by NZRB with forecast retentions to be available for reinvestment and/or distribution. This means that if the $2.3 million retention is not required in 2016/17 because of the phasing of spend or the structure of transactions, it may, at the discretion of the Board, be available for distribution.

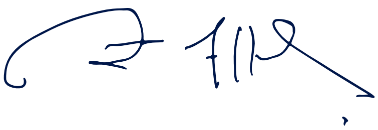
These are tough decisions, and we do not expect them to be popular but we have to invest in our business now for the long term benefit of the industry. The challenges facing the industry have been long recognised with a serial lack of investment, and tinkering around the edges won't be enough. All of the metrics are telling us what the consequences will be which is why fundamental changes must be made. We intend to drive these changes as we have an overarching requirement to protect the long-term interests of the industry and the livelihoods and wellbeing of the people engaged in it.

We know that this will be a difficult message for the industry as we transition to a new way of operating. Both within NZRB and out in the wider industry, the impact of what we have already started will be far reaching. It will take robust and effective leadership from NZRB, guiding and working with our industry partners, to achieve our goals. And while NZRB will lead the way, success depends on everyone in the industry getting behind the change that is necessary to deliver the future.

We're going to have to try some different models and we're going to have to do things differently in order to move faster and get around some of the obstacles in our systems, our culture and our mind-set – if we don't we will be left behind.

I'm confident NZRB has the competencies and capabilities to deliver these projects and lead the New Zealand racing industry toward a long term sustainable future. I am personally determined to make it happen.

It won't be easy – but we can do it together.



John Allen
Chief Executive Officer

OBJECTIVES AND ACTIVITIES

KEY TRENDS

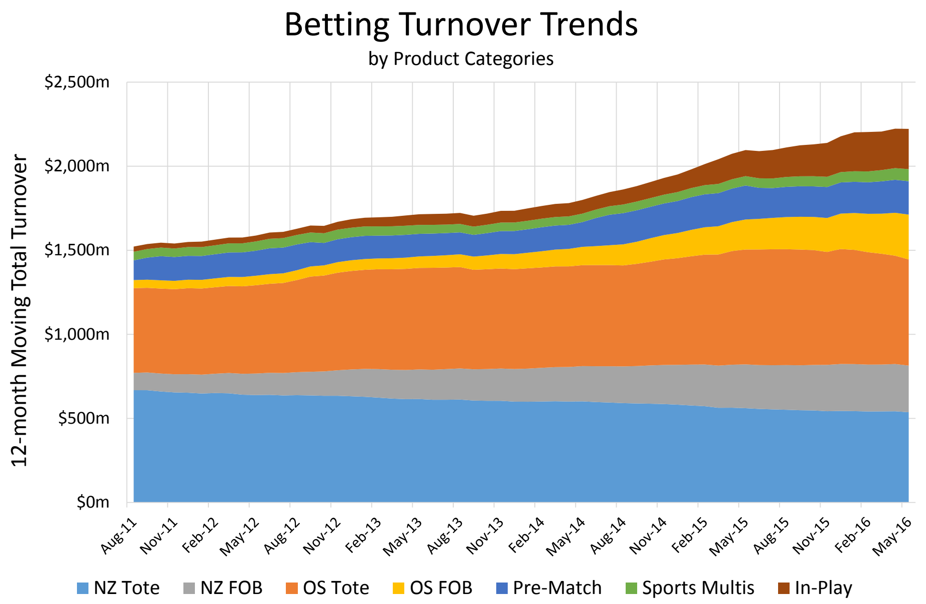
The trends to May 2016 are in line with prior year SOI forecasts and continue to demonstrate the shift in product and channel preference for consumers.

- Racing Net Betting Revenue is up 1.8% on prior year while sports Net Betting Revenue is up 13.3%. Net Gaming Revenue is up 24.2% on prior year.
- Betting margin continues to be impacted by the shift in customer preference towards fixed odds betting (FOB) products. High betting margin tote products comprised only 49.0% of total betting turnover compared to 59.0% for last year.
- FOB now represents 36% of all racing turnover. The number of betting options offered has increased 33% year on year, with Australian options surpassing 50,000, an increase of 59% compared to last year.
- Sports betting continues to grow significantly, 46% of which is lower-margin in-play betting.
- The average number of customer active accounts YTD is nearly 90,000, up 11% on the prior year. This is driven by improved retention of customers on a month by month basis, with 81% of account customers on average active one month to the next, compared to 78% last year.
- New accounts are up 22% compared to last year. The Rugby World Cup provided a great opportunity to engage customers, with 7,000 bettors placing their first bet on this event.
- Digital channels now account for 87% of account turnover, and growth has been particularly strong in mobile channels which have grown by 42% compared to last year, including the Mobile App which grew three-fold year on year.

Understanding the betting business

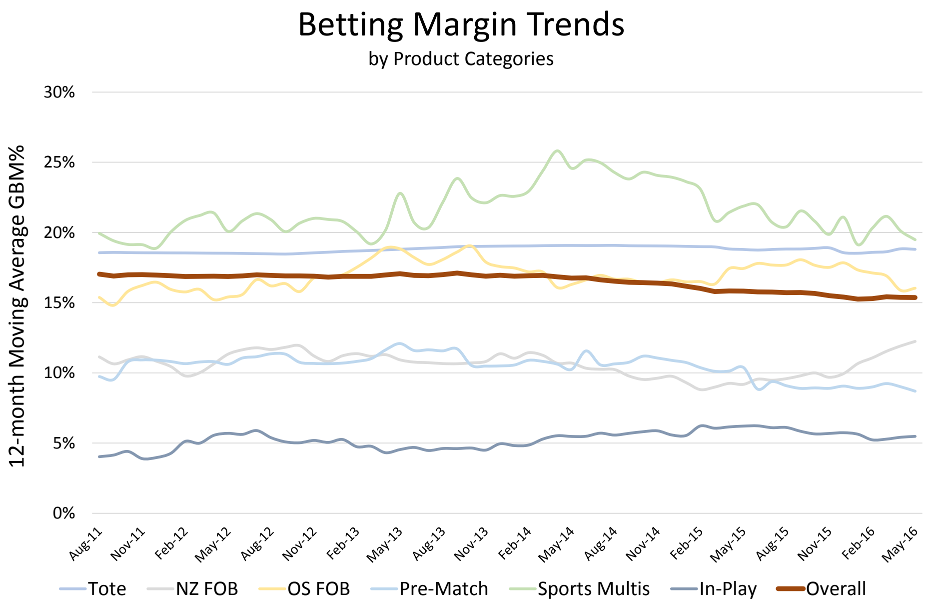
Total turnover from domestic racing has remained flat over the last five years, while turnover from overseas racing and sports has increased considerably. Within these trends there has been a noticeable shift from tote to FOB in domestic racing, and the largest proportional growth occurring in overseas racing FOB and in-play sports betting in recent years. The continued growth in non-tote products highlights the changing nature of NZRB's business and the importance of investing in new capability and capacity to ensure NZRB can continue to deliver to changing customer preferences. An anticipated restriction on international betting in the new wagering agreements with Tabcorp will have the largest impact on overseas tote.

Figure 1



The shift in product mix illustrated in Figure 1, coupled with the relative margins of each product shown in Figure 2, is causing the overall margin from NZRB products to reduce over time. NZRB product margins are largely consistent with international industry norms, and as such NZRB expects a change in its product mix to continue to reduce the average margin over time. Investment in a new FOB platform will improve margins from efficiency measures, however overall margin will always reflect customer preferences. Note, while this table shows long-term average trends, short term margins are subject to noticeable volatility on a daily basis, often ranging from 5-25% on any given day.

Figure 2



2015/16 Priorities in Review

Last year's Statement of Intent set out four key priorities for NZRB designed to set us on the pathway to modernising our systems, operational structure and cost base. In addition, NZRB prioritised work on our customer and channel insights during the year which is reviewed below. Significant progress has been made during the year, with a number of these priorities continuing into 2016/17.

Re-Engineering the NZRB Cost Model

NZRB's operational model has shifted significantly in 2015/16. An executive leadership restructure has provided the opportunity for operational realignment to a more cohesive, less compartmentalised structure. A focus on cost management throughout the year has seen us restructure employee incentives, reduce reliance on contractors and consolidate our property footprint across New Zealand. In Auckland and Wellington, agreements to sub-let space have been completed, and in Christchurch the sale and leaseback of our property has realised cash and capital gains, and provided the opportunity to lock in a long term operational lease agreement. This program has already delivered $3.2 million in cost savings on an annualised basis. These savings have been reinvested into the business driving improvements such as remediating our technology infrastructure that is already underway. Further cost re-engineering initiatives are being pursued in 2016/17.

Core Technology

Strategic relationships have been developed with major technology providers, and the migration of core betting systems is underway. This strategic alignment has allowed NZRB to avoid higher future technology costs, without the requirement to commit to significant capex, to access modern, flexible, fit for purpose technology, to significantly improve our management of risk particularly around disaster recovery and business interruption, and to pursue more cost effective operating platforms with little or no loss of operational functionality. The modernisation of operational processes and system structures will be a key enabler for growth not possible with the current systems. This strategic change process and the realisation of the resulting benefits will continue into 2016/17.

FOB Platform

Considerable work has been undertaken in scoping and assessing the necessary requirements for the New Zealand market, taking into account long term betting trends, international experiences and customer research. This work has highlighted that NZRB's current technology cannot offer the breadth and depth of product our customers require and our competitors offer. A new automated FOB platform will deliver improved accuracy of pricing with opportunity for higher margins, and enhance our ability to understand our customers. Detailed assessment of potential providers is underway, and a decision on the successful partner will be made by the Board in July.

Optimise the Racing Calendar

A good example of industry collaboration, phase one has seen the development of an economic model and race calendar scenario calculator with input from NZRB, clubs and Codes. Collective financial and operational information has enabled the mapping of activities that create value for the industry (and limit it), and the identification of linkages between key industry drivers. These are tools the industry has been looking to develop for some time, and provide a common set of information for all parties to utilise. A working party including both NZRB and Code representatives is now using these tools to develop a commercially optimal race calendar, with a short term focus on relative revenue growth and contribution delivered, and a medium term view to better infrastructure utilisation and cost rationalisation opportunities for all industry participants. The models will also provide an important input into a restructured Code distribution agreement which we would anticipate being in place by the 2017/18 year. This strategic initiative will progress into 2016/17.

Customer and Channels

An important piece of research is well underway focused on developing a deeper understanding of current and potential customers, their emotional drivers and behaviours, and their levels of engagement with the racing industry. This work is a key enabler of two major initiatives in 2016/17, the Customer and Channel strategies, providing NZRB with the opportunity for sales channel optimisation, particularly the role of retail, the importance of digital channels, and expectations of customers within each sales channel.

LOOKING AHEAD

Our Strategic Focus

NZRB is strategically focused on leading the racing industry toward a position of sustainability. Achieving this will require targeted investment in growth platforms, ensuring we are competitive on an international stage, and developing a better understanding of our customers and their drivers.

Three key challenges face NZRB and the wider industry:

- NZRB does not have enough customers to succeed.
- NZRB's current technology platforms limit its opportunities for growth.
- The domestic racing product is not optimised for success.

These challenges are manifesting themselves in the industry in a number of ways:

- **The racing industry is not economically sound.** Domestic racing is weighed down by more infrastructure than it needs, leading to inefficient and expensive processes to deliver the racing product to market. The money spent on delivering domestic racing is decoupled from the ability to generate revenue on that racing, often resulting in poor economic decisions. Instead of addressing these key issues, the industry has over the years brought in, and become reliant on, external revenue sources to support a dated operational model.
- **International competition for betting revenue is increasing.** The current betting platforms offered under the TAB brand fall a long way short of the polished products offered by international competitors. The sheer scale of change required for NZRB to achieve a position of competitiveness should not be underestimated.
- **Customer betting behaviour is shifting away from Tote to Fixed Odds Betting.** This has the effect of increasing volatility in betting revenue as the more stable margin from the Tote offering reduces as a proportion of the total betting business. This trend also fundamentally changes the business of betting, as it results in punters competing directly with the bookies, rather than competing against other punters. This fundamentally increases the risk of running NZRB.
- **New customer betting preference is weighted towards sports betting.** This is reducing the margin from sports betting over time, reducing the margin available to counter the increasing volatility inherent in a FOB offering.

NZRB's strategic initiatives are designed to address these key challenges, focused on delivering long term sustainable solutions. Upfront investment will be required to ensure the necessary capability, capacity and skill is available to execute on our strategic initiatives.

Our collective success in delivering solutions to these challenges will be directly correlated to the willingness within the industry to trial initiatives that may not fit neatly within the status quo. We will need to challenge the way things are and to take an entrepreneurial approach to finding innovative solutions. The challenges the industry faces today are a direct result of prolonged periods of underinvestment compared to our international competition.

2016/17 Priorities and Key Strategic Initiatives

NZRB's focus for the coming year is to build on progress from 2015/16 and centre on developing our major growth platforms. As noted in the previous section, a number of priorities from 2015/16 will continue into the coming year, with FOB platform and optimising the calendar forming part of our key strategic initiatives. NZRB will also continue to prioritise re-engineering the NZRB cost model and ongoing improvements to our core technology.

PROJECT	OUTLINE	KEY FOCUS AREAS AND OUTCOMES
Customer Strategy	Gain a better understanding of the needs of our customers and how NZRB can improve our offerings, and use this insight to maximise customer experience and support future changes for growth, leading to an increase in revenue.	• Use customer insights to develop plans to realise key opportunities. • Significantly increase the customer base. • Develop a deeper understanding of customer drivers.
Channel Strategy	Develop a future state for each channel/touch-point informed by the customer strategy. Customers will have a set of coherent channels, while the cost to serve and cost to acquire is managed.	• Provide a seamless customer experience across all sales channels. • Ensure sales channels are optimised for the needs to the customer. • Right size the TAB's retail network. • Progress the development of a cohesive set of digital channels offerings.
Offshore Betting	To progress the recommendations of the Offshore Betting Working Group designed to combat the impact of offshore betting on New Zealand racing and sport. These include the introduction of an offshore bookmaker fee and changes to the Racing Act designed to make NZRB more competitive.	• Support the Government as it completes the review of submissions on the discussion document and prepares final recommendations for Cabinet. • Support the introduction of legislation to Parliament which may potentially occur before the end of the year.
Optimise the Calendar	Development of an industry agreed domestic racing calendar with supporting infrastructure. This transformational change will build a sustainable future for the New Zealand racing industry, maximising the economic contribution, while taking into account the practical and political perspectives.	• Develop a commercially optimal domestic race calendar and a plan to map how this can be achieved. • Identify achievable cost saving opportunities for race clubs. • Identify infrastructure optimisation opportunities.
FOB Platform	The introduction of an automated FOB platform which will enable NZRB to maintain our competitiveness in the face of increased competition from offshore betting websites. Our current FOB platform does not provide the products that our customers want, resulting in loss of customers and revenue. Current manual processes are high cost and high risk.	• Develop and implement a plan to deliver a new FOB platform. • Aligning the platform delivery with the customer and channel strategies.

The incremental profit contribution from each of these initiatives is illustrated in the table under capital investment in the *Introduction from the Chief Executive*. Anticipated revenue/profit from the introduction of new race fields legislation has been reflected in 2017/18 and 2018/19 financial years.

Significant investment will be required to deliver the above mentioned strategic initiatives that in turn will generate the profit required to increase future distributions. While the level of funding will depend on the approach and delivery method, it is estimated this will be in the order of $60-75 million over the next three years. NZRB will be considering various options to fund these initiatives including external financing arrangements and partnering given limited reserves available on NZRB balance sheet and the need to minimise the impact on the Codes in the short term. The benefits from these initiatives will be significant. We anticipate by implementing these projects we will be able to improve NZRB's long-term profitability by circa ~$50-55 million per year to increase future distributions on a sustainable basis.

FINANCIAL POSITION

The deterioration of the balance sheet, as signalled in last year's SOI, remains a significant issue for the industry. Continuing to invest in the long term sustainability of the industry, while distributing all of our profits, is untenable and continues to have a negative impact on the NZRB balance sheet position.

Total Equity is expected to be $73.1 million and Free Cash[1] $29.7 million by 31 July 2016, an increase of $2.3 million in Net Assets and $1.0 million in Free Cash compared to the previous year. While this reflects a marginal improvement, this cash position is not sufficient to complete the key strategic initiatives needed to make a significant change and to turn the industry into a sustainable one.

2015/16 FORECAST RESULTS

The forecast results for 2015/16 are based on our actual performance to May 2016, combined with a forecast for the remainder of the year.

- Betting Turnover is expected to perform better than Budget by $156.8 million (7.4%), with the major contributors being higher customer numbers, stronger betting activity from high staking customers and growth in in-play sports driven by key sporting events. These factors are expected to result in a year on year growth of approximately $210.9 million (10.2%). Gaming Turnover is anticipated to be ahead of Budget by $1.4 million and ahead of prior year by $73.1 million (23.0%) due to the opening of new sites.
- Net Betting Revenue is forecast to reach $279.7 million or $12.6 million (4.7%) up on prior year. This is also expected to be up by $5.9 million (2.1%) on Budget. This has been pushed by higher than budgeted turnover, offset partly by lower than anticipated margins. The shift in customer preference from tote to fixed odds in racing and growth in in-play sports betting continues to dilute betting margins, however overall betting revenue continues to grow. Net Gaming Revenue is forecast in line with Budget at $22.9 million or $4.4 million (23.9%) ahead of prior year driven by the opening of new sites.
- Other income is projected to be $45.1 million, which is $0.3 million lower than Budget and $0.8 million lower compared to prior year (excluding the gain on sale of the Petone building of $4.9 million). This has been driven by a combination of higher than expected NZ racing shown overseas due to continued growth in Australian turnover, offset by lower than expected advertising revenue.
- Turnover related expenses are anticipated to be $66.5 million, which is higher than Budget by $5.2 million (8.5%) and the previous year by $1.9 million (2.9%). Strong Sports Turnover has resulted in higher National Sporting Organisation (NSO) commissions and higher than anticipated import racing has increased overseas racing right fees.
- Operating expenses are forecast to be $137.0 million, which is $0.4 million (0.3%) below Budget and $9.2 million (7.2%) higher than previous year. Cost savings have been realised in property, employee incentives, contract labour, insurance and procurement reflected in the favourable Budget variance. The increase compared to prior year is in line with the SOI and Budget and attributable to the investment required in IT infrastructure to remediate significant risks and provide a scalable platform for digital growth.

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

2016/17 BUDGET

The 2016/17 Budget reflects a business balancing the needs of the everyday including capital expenditure required to overhaul our infrastructure, the impact of a significant reduction in betting turnover due to restrictions under new Tabcorp wagering agreements and the absence of any major sporting events next year.

The 2016/17 Budget specifically excludes capital investment and associated benefits in relation to delivering the strategic initiatives outlined under '2016/17 Strategic Priorities' as they will be subject to the completion of detailed planning and business cases for Board approval. Hence, the Financial Budget captured in this Statement of Intent has been developed on a 'business as usual' basis.

To insulate the industry from the impact of this upfront capital investment, NZRB will be considering various options to fund these initiatives including external financing arrangements and partnering opportunities. This will include a review of the available capital structure across the industry. The benefits that are derived from these initiatives will be used to repay any externally sourced funding and increase future distributions that will be reviewed annually.

- Net Profit is budgeted to be $148.0 million ($138.5 million Betting Net Profit, $15.3 million Gaming Net Profit less RIU costs of $5.8 million), excluding investment costs for the key strategic initiatives. This is a $1.6m increase on the Net Profit forecast for 2016/17 financial year reflected in last year's Statement of Intent and represents a moderate increase of $3.8 million (2.6%) from the 2015/16 Forecast. The 2016/17 Budget is impacted by a reduction in Net Profit of $4.3 million due to an anticipated restriction on international betting in the new wagering agreements with Tabcorp. Excluding this impact, underlying Net Profit is budgeted to grow by $8.1 million (5.8%) compared to 2015/16 Forecast. Betting Profits are budgeted to increase $3.9 million (2.9%) with Gaming Profits down $0.1 million (0.6%) following the application of new DIA rules regarding venue costs.
- Net Betting Revenue continues to be impacted by margin erosion as customer preferences move towards lower margin betting products. This together with the reduction in international betting means Net Betting Revenue is budgeted to be $0.1 million (0.1%) ahead of 2015/16. Betting Turnover is budgeted to be $2,331.8 million, which represents an increase of $48.3 million or 2.1%.
- Net Gaming Revenue is budgeted to increase by $1.9 million (8.3%) on the 2015/16 Forecast with the planned addition of two new sites and increased performance from existing stores.
- Other Income is budgeted to be $46.9 million, or $1.8 million (4.0%) ahead of the 2015/16 Forecast. Increases in Credit Card Fee Revenue and Export Income are offset by lower recoveries for services provided to clubs and lower interest received due to falling interest rates.
- Turnover Related Expenses are budgeted to decrease $0.3 million (0.5%). A reduction in international betting leads to lower Overseas Racing Rights payments. This is offset by increases in product fees paid to National Sporting Organisations from higher Sports Turnover and the introduction of a Strategic Fund with Sport NZ under a new Heads of Agreement.

- Operating Expenses are budgeted to increase $0.3 million (0.2%) with significant drivers being:
  - A reduction of $1.9 million in Staff Expenses following various restructuring initiatives undertaken in 2015/16.
  - An increase of $0.6 million under Other Expenses for Health and Safety initiatives relating to investment required in underlying racing infrastructure in accordance with new legislation.
  - An increase of $1.0 million in Communication and Technology Expenses associated with the continued investment and remediation in core operating systems.
  - Other small increases are due to increased Credit Card Fees from customers topping up their accounts on-line and investment required in support of the key strategic investments.
  - The reduction in Staff Expenses has largely offset the important investments required in health and safety and IT infrastructure to minimise any overall increase in Operating Expenditure.
- The 'Operating Expenses to Revenue' ratio remains relatively static in 2016/17 at just over 39% with a small decrease from 39.4% in 2016 to 39.1% in 2017 affected by the reduction in betting revenue from international wagering restrictions combined with higher Technology costs and increased investment in Health and Safety initiatives under the new legislation. This ratio reduces to 36.9% over the SOI period with cost saving initiatives aimed at minimising increases in operating expenditure combined with growth in betting revenue including the impact of anticipated race fields legislation.
- Capital Expenditure is budgeted to be $16.0 million, which is in-line with the 2015/16 Forecast underpinned by critical infrastructure requirements including core systems and broadcasting equipment, regulatory and compliance projects and business improvement initiatives.
- Total Equity and Free Cash is budgeted to improve by $2.3m and $4.0m respectively compared to 2015/16 Forecast that is attributable to a lift in Net Profit combined with improvements in working capital.

2018 AND 2019 FORECASTS

The key areas of focus that have been outlined previously are expected to lift Net Profit from $148.0 million in 2016/17 to $164.5 million by 2018/19; that is a significant improvement over this period and reflects the capability that is in place to deliver against these commitments moving forward.

It is important to note that the 2017/18 and 2018/19 Forecasts are based on known trends, and do not include the full impact of the key strategic initiatives, other than the anticipated increases in revenue due to new race fields legislation. The 2017/18 and 2018/19 Forecasts include modest revenue growth and expense increases at a level that is in line with market growth and consistent with New Zealand Consumer Price Index.

CODE DISTRIBUTIONS

NZRB requires a significant level of capital investment of $60-75 million over the next three years to fund the major strategic initiatives and continue to implement key improvements to infrastructure. To achieve this level of investment whilst also minimising the impact on the Codes, there will be a modest increase in distributions for the 2016/17 financial year of $1.3 million (compared to 2015/16 Budget) to $136.2 million. The outer year forecasts also include estimated increases in revenue due to anticipated race fields legislation, resulting in forecast increases in distributions of $5.3 million in 2017/18 and a further $2.6 million in 2018/19.

Distributions will be reviewed each year and it is expected that as benefits from the investment strategy are realised, NZRB will be in a position to lift distributions from this base level. In the meantime, NZRB will insulate the industry from the impact of the investment required over this period through an effective funding strategy that will include considering external financing arrangements and partnering opportunities.

We note that by increasing 2016/17 distributions to the three racing Codes to $136.2 million, NZRB will effectively retain $2.3 million (of Betting profits) in the 2016/17 Budget to apply against the investment programme. Distributions to the racing Codes will be reviewed annually by NZRB, with forecast retentions, that increase to $10.0 million (6.5% of Betting profits) in 2018/19, to be available for reinvestment and/or distribution that balances the needs of the industry in the short term with the capital funding required to support the strategic initiatives. This indicative retention is also reflected in the NZRB Total Equity position that increases from $73.1 million in 2015/16 to $91.0 million in 2018/19 that in reality will either be reinvested and/or distributed at the discretion of the Board.

STATEMENTS OF PROFIT OR LOSS

Years ending 31 July	($M) ACTUAL 2014/15	FORECAST 2015/16	BUDGET 2016/17	FORECAST 2017/18	FORECAST 2018/19	5 YEAR GAGR
BETTING AND GAMING TURNOVER	**2,389.7**	**2,673.6**	**2,752.3**	**2,867.1**	**2,988.6**	**4.6%**
REVENUE						
NET BETTING REVENUE	267.1	279.7	279.8	286.8	293.7	1.9%
NET GAMING REVENUE	18.5	22.9	24.8	25.8	26.6	7.6%
OTHER REVENUE	50.8	45.1	46.9	56.5	61.9	4.0%
TOTAL REVENUE	**336.4**	**347.7**	**351.5**	**369.1**	**382.2**	**2.6%**
TURNOVER RELATED EXPENSES	64.6	66.5	66.2	72.5	76.5	3.4%
PROFIT CONTRIBUTION	**271.8**	**281.2**	**285.3**	**296.6**	**305.7**	**2.4%**
OPERATING EXPENSES						
BROADCASTING	9.7	10.1	10.0	10.2	10.4	1.4%
COMMUNICATION AND TECHNOLOGY EXPENSES	9.6	15.8	16.8	17.0	17.3	12.4%
PREMISES AND EQUIPMENT EXPENSES	14.7	14.5	14.6	14.9	15.1	0.5%
STAFF EXPENSES	63.8	65.8	63.9	64.9	65.5	0.5%
DEPRECIATION AND AMORTISATION	15.9	16.1	16.1	16.1	16.1	0.3%
FOREIGN EXCHANGE LOSS / (GAIN)	0.3	0.1	-	-	-	-
OTHER OPERATING EXPENSES	13.8	14.6	15.9	16.4	16.8	4.0%
TOTAL OPERATING EXPENSES	**127.8**	**137.0**	**137.3**	**139.5**	**141.2**	**2.0%**
NET PROFIT BEFORE DISTRIBUTIONS	**144.0**	**144.2**	**148.0**	**157.1**	**164.5**	**2.7%**
Made up of:						
BETTING NET PROFIT	137.1	134.6	138.5	147.0	154.1	2.4%
GAMING NET PROFIT	12.5	15.4	15.3	16.1	16.6	5.8%
RIU COSTS	(5.6)	(5.8)	(5.8)	(6.0)	(6.2)	(1.9)%

Note: Actual 2014/15 Net Profit includes Petone building gain on sale of $4.9 million.

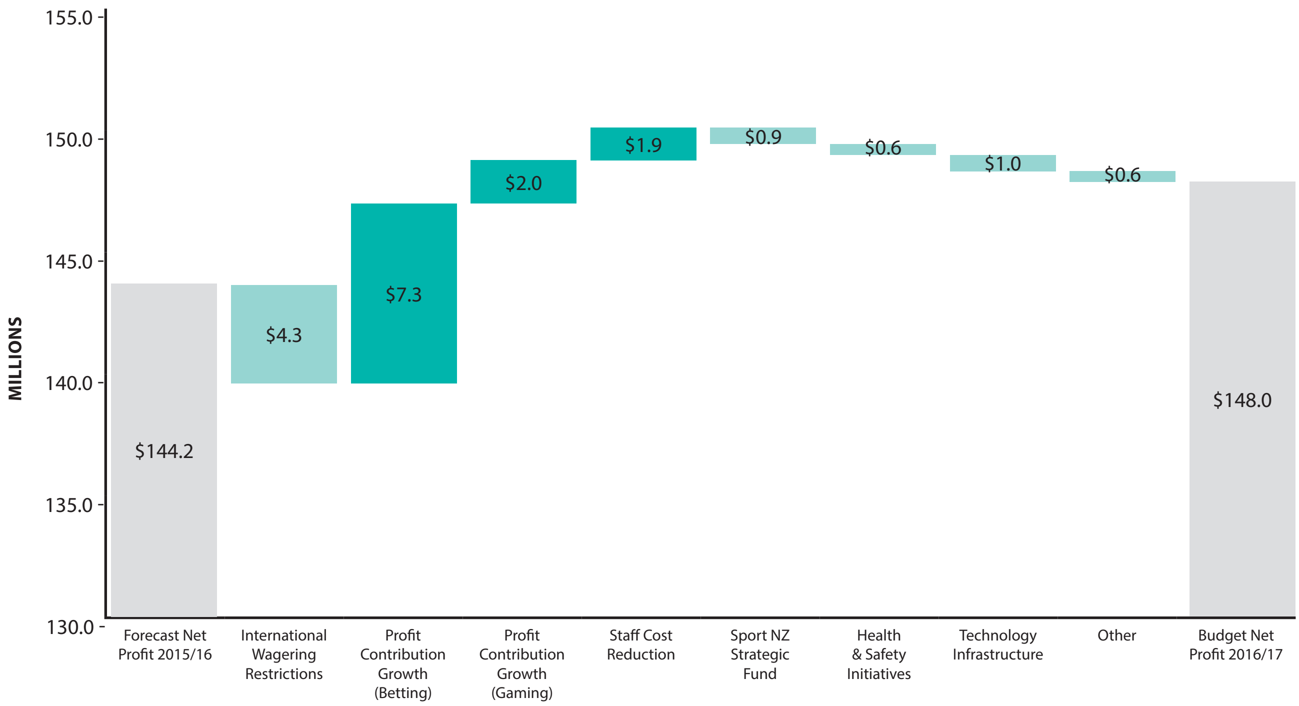
The 2017/18 and 2018/19 Forecasts are based on known trends, and do not include the full impact of the key strategic initiatives, other than the anticipated increases in revenue due to new race fields legislation. The 2017/18 and 2018/19 Forecasts include modest revenue growth and expense increases at a level that is in line with market growth and consistent with New Zealand Consumer Price Index.

NORMALISED STATEMENTS OF PROFIT OR LOSS

Years ending 31 July	($M)				
	ACTUAL 2014/15	FORECAST 2015/16	BUDGET 2016/17	FORECAST 2017/18	FORECAST 2018/19
NET PROFIT BEFORE DISTRIBUTIONS	144.0	144.2	148.0	157.1	164.5
GAIN ON SALE OF PETONE HEAD OFFICE BUILDING	(4.9)	-	-	-	-
NORMALISED NET PROFIT	139.1	144.2	148.0	157.1	164.5
Made up of:					
BETTING NET PROFIT	137.1	134.6	138.5	147.0	154.1
GAIN ON SALE OF PETONE HEAD OFFICE BUILDING	(4.9)	-	-	-	-
NORMALISED BETTING NET PROFIT	132.2	134.6	138.5	147.0	154.1
GAMING NET PROFIT	12.5	15.4	15.3	16.1	16.6
RIU COSTS	(5.6)	(5.8)	(5.8)	(6.0)	(6.2)

FINANCIAL METRICS

Years ending 31 July	($M)				
	ACTUAL 2014/15	FORECAST 2015/16	BUDGET 2016/17	FORECAST 2017/18	FORECAST 2018/19
OPERATING EXPENSES/TOTAL REVENUE RATIO	38.0%	39.4%	39.1%	37.8%	36.9%
NET BETTING REVENUE MARGIN %	12.9%	12.2%	12.0%	11.8%	11.6%
NET GAMING REVENUE MARGIN %	5.8%	5.9%	5.9%	5.9%	5.9%
EARNINGS BEFORE INTEREST, DEPRECIATION AND DISTRIBUTIONS	157.8	158.8	162.4	171.2	178.3
DEPRECIATION AND AMORTISATION	15.9	16.1	16.1	16.1	16.1
CAPITAL EXPENDITURE	27.0	15.0	16.0	16.0	16.0


155.0
150.0
145.0
140.0
135.0
130.0
MILLIONS
$144.2
$4.3
$7.3
$2.0
$1.9
$0.9
$0.6
$1.0
$0.6
$148.0
Forecast Net Profit 2015/16
International Wagering Restrictions
Profit Contribution Growth (Betting)
Profit Contribution Growth (Gaming)
Staff Cost Reduction
Sport NZ Strategic Fund
Health & Safety Initiatives
Technology Infrastructure
Other
Budget Net Profit 2016/17

DISTRIBUTIONS

Years ending 31 July	($M) ACTUAL 2014/15	FORECAST 2015/16	BUDGET 2016/17	FORECAST 2017/18	FORECAST 2018/19
BETTING					
DISTRIBUTIONS TO RACING CODES	134.2	134.6	136.2	141.5	144.1
TOTAL DISTRIBUTIONS FROM BETTING NET PROFIT	134.2	134.6	136.2	141.5	144.1
PROFIT RETAINED FOR INVESTMENT OR DISTRIBUTION	2.9	-	2.3	5.5	10.0
BETTING NET PROFIT	**137.1**	**134.6**	**138.5**	**147.0**	**154.1**
GAMING					
DISTRIBUTIONS APPLIED TO RACING INDUSTRY [1]	8.6	10.0	9.3	10.0	10.4
DISTRIBUTIONS APPLIED TO NZRB RACE FORM PUBLICATION EXPENSES [2]	2.0	2.0	2.0	2.0	2.0
DISTRIBUTIONS APPLIED TO NZRB EML EXPENSES [3]	-	0.9	0.9	0.9	0.9
DISTRIBUTIONS TO SPORTING EXTERNAL BODIES [4]	2.7	2.8	3.1	3.2	3.3
DISTRIBUTIONS FROM PRIOR YEAR UNDISTRIBUTED GAMING SURPLUS	(1.1)	(0.3)	-	-	-
TOTAL DISTRIBUTIONS FROM GAMING NET PROFIT	12.2	15.4	15.3	16.1	16.6
PROVISION FOR UNDISTRIBUTED GAMING SURPLUS	0.3	-	-	-	-
GAMING NET PROFIT	**12.5**	**15.4**	**15.3**	**16.1**	**16.6**
RIU					
IMPACT OF CONSOLIDATION OF RIU	(5.6)	(5.8)	(5.8)	(6.0)	(6.2)
TOTAL DISTRIBUTIONS	**140.8**	**144.2**	**145.7**	**151.6**	**154.5**
TOTAL NET PROFIT	**144.0**	**144.2**	**148.0**	**157.1**	**164.5**

1 The distributions to the racing industry represent the payments for the racing integrity costs, paid for under Racing Authorised Purpose of the NZRB's Class 4 Gaming Licence. These costs for the Budget 2016/17 year include the following:

RIU	$5.8 million
Judicial Control Authority	$1.3 million
NZ Racing Laboratory Services	$1.7 million
Other	$0.5 million

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

3 Distributions to recover Events, Marketing and Logistics (EML) expenses relates to the application of funds from Gaming to reimburse certain EML expenses under the Racing Authorised Purpose.

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

STATEMENTS OF FINANCIAL POSITION

Years ending 31 July	($M)				
	ACTUAL 2014/15	FORECAST 2015/16	BUDGET 2016/17	FORECAST 2017/18	FORECAST 2018/19
CURRENT ASSETS					
CASH AND CASH EQUIVALENTS	20.7	25.7	30.0	32.6	36.1
TRADE AND OTHER RECEIVABLES	9.3	13.3	11.8	11.4	11.7
NON-CURRENT ASSETS HELD FOR SALE	1.3	-	-	-	-
OTHER FINANCIAL ASSETS	31.1	29.7	32.5	37.5	45.6
OTHER CURRENT ASSETS	2.3	2.3	2.3	2.3	2.3
TOTAL CURRENT ASSETS	**64.7**	**71.0**	**76.6**	**83.8**	**95.7**
NON CURRENT ASSETS					
PROPERTY, PLANT AND EQUIPMENT	47.9	45.5	45.4	45.3	45.2
INTANGIBLE ASSETS	16.7	15.6	15.5	15.4	15.3
OTHER FINANCIAL ASSETS	2.6	2.6	2.6	2.6	2.6
TOTAL NON CURRENT ASSETS	**67.2**	**63.7**	**63.5**	**63.3**	**63.1**
TOTAL ASSETS	**131.9**	**134.7**	**140.1**	**147.1**	**158.8**
CURRENT LIABILITIES					
TRADE AND OTHER PAYABLES	23.3	24.7	25.1	25.5	25.8
CUSTOMER BETTING ACCOUNT DEPOSITS AND VOUCHERS	21.5	21.4	24.2	25.2	26.3
OTHER FINANCIAL LIABILITIES	6.3	5.4	5.4	5.5	5.6
DERIVATIVE LIABILITIES	0.3	0.1	-	-	-
TAXATION PAYABLE	3.3	3.7	3.8	3.9	4.0
PROVISIONS	2.0	1.9	1.7	1.6	1.6
TOTAL CURRENT LIABILITIES	**56.7**	**57.2**	**60.2**	**61.7**	**63.3**
NON CURRENT LIABILITIES					
OTHER FINANCIAL LIABILITIES	3.3	3.3	3.3	3.2	3.1
PROVISIONS	1.1	1.1	1.2	1.3	1.4
TOTAL NON CURRENT LIABILITIES	**4.4**	**4.4**	**4.5**	**4.5**	**4.5**
TOTAL LIABILITIES	**61.1**	**61.6**	**64.7**	**66.2**	**67.8**
NET ASSETS/TOTAL EQUITY	**70.8**	**73.1**	**75.4**	**80.9**	**91.0**

STATEMENT OF ACCOUNTING POLICIES

In preparing its annual financial statements, NZRB has adopted accounting policies in accordance with generally accepted accounting practice in New Zealand, as required under the Racing Act 2003 and the Financial Reporting Act 1993 which comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) as appropriate for Tier 1 for-profit entities. The significant accounting policies are discussed below; please refer to the most recent audited financial statements for details of all accounting policies in place.

BASIS OF PREPARTION

Reporting entity and statutory base

The NZRB is a statutory body established by the Racing Act 2003. Customer betting accounts and betting vouchers offered are debt securities within the meaning of the Securities Act 1978 and NZRB is therefore an 'issuer' for the purposes of the Financial Reporting Act 1993. The NZRB has not yet transitioned to the Financial Markets Conduct Act 2013 (FMCA) and in accordance with the FMCA transition provisions, will not be required to do so until the 2017 financial year. As a result, it is still required to comply with the Financial Reporting Act 1993 and include Parent accounts in these financial statements. The NZRB is domiciled in New Zealand.

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

(a) to promote the racing industry;

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

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

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

Statement of compliance

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

Basis of measurement

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

Changes in accounting policies

All the accounting policies have been applied consistently to all periods presented in these financial statements.

Prior period comparatives

During the 2016 year, NZRB changed the presentation of the Condensed Statement of Profit or Loss and Other Comprehensive Income. The most significant change being reclassification of costs previously recorded as operating costs are now included in turnover related expenses. These costs include advertising and promotion expenses and race form publications. Where required, prior year comparatives have been restated to conform to the current year's presentation.

New standards and interpretations issued

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

The following new standards, amendments or interpretations to existing standards were in issue but not yet effective and have not yet been applied by NZRB:

	Effective
- NZ IFRS 9, Financial instruments	FY 2018
- NZ IFRS 15, Revenue from contracts with customers	FY 2019
- NZ IFRS 16, Leases	FY 2020

NZRB will adopt these new or amended standards and interpretations in the period that application of the standard is required; a full impact analysis is yet to be performed with respect to these new standards.

Critical accounting estimates and assumptions

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

Basis of consolidation

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

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

Taxes

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

Operating segments

NZRB has two operating segments:

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

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

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

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

All Gaming turnover is generated in New Zealand and geographical information for sports betting turnover is impracticable to collate. The following is a Betting and Gaming gross margin analysis of turnover by product and geographical region, where applicable.

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.

Distribution payments include a funding component which is made directly to the racing Codes, based on funding agreements with the Codes.

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

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

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

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.

Other income

NZRB's other income comprise of the following:

- **Gain on disposal of property, plant and equipment** is the difference between the net proceeds from disposal and the carrying amount of the item disposed and is recognised when the risks and rewards of ownership have transferred to the buyer (this is usually the date when the title is transferred).
- **Interest income** is earned on cash and cash equivalents, short-term deposits, corporate bonds and industry loans and recognised using the effective interest method when it is earned.
- **Merchant fee revenue** is income derived from credit card transaction fees charged to customers.
- **Income earned on racing shown overseas** represents fees received from international betting agencies on the export of New Zealand racing events. This income is recognised based on the turnover taken by the international betting agencies on exported racing events and is recognised at the time that the racing event takes place.
- **Racing services income** represents income earned by NZRB from providing on-course race day services to racing clubs. Racing services income is recognised at the time that the racing event takes place.
- **Revenue from Broadcasting within New Zealand** is advertising income earned on NZRB's Trackside TV channels and Trackside Radio and is subject to levies under the Broadcasting Act 1989.
- **All other income** is measured at the fair value of the consideration given and is recognised when risks and rewards transfer from NZRB.

Cash and cash equivalents

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

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

Trade and other receivables

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

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

Other financial assets

Other financial assets are initially recognised at their fair value when NZRB becomes a party to the contractual provisions of a financial instrument. Initial fair value is considered to be the cost price of the instrument, except for 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. Subsequent to initial measurement, all financial assets are measured at amortised cost, using the effective interest 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.

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.

Customer betting account deposits and vouchers

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

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

Property, plant and equipment

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

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

DEPRECIATION RATES	
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 asset (term of lease)	10 years

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

Intangible assets

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

NZRB develops specialised software for its own use in the business. The cost of internally generated software comprises all directly attributable costs necessary to create and prepare the asset to be capable of operating in the manner intended by management, including direct labour costs. No borrowing costs are capitalised.

Amortisation is charged on a straight-line basis over the estimated useful lives of the asset and is recognised within 'Premises and Equipment Expenses' in the profit or loss. The estimated useful life and amortisation method are reviewed annually.

AMORTISATION RATES	
Software	3-7 years
Broadcasting licences	14-20 years
Lease intangibles (term of lease)	2-6 years

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

Non-current assets 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.

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.

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

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

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.

Categories of financial instruments

FINANCIAL ASSETS

NZRB classifies its financial assets in the following categories: held to maturity and loans and receivables.
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. NZRB classifies all of its financial liabilities as other financial liabilities.

Financial assets are assessed for impairment at each reporting date for impairment. Impairment is recognised in profit or loss.

FINANCIAL LIABILITIES

NZRB classifies its financial liabilities under 'financial liability measured at amortised cost' category with the exception of derivative liabilities which is categorised as 'financial liability through profit or loss'.

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.

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Mauro Barsi
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Barry Brown
Independent Member

Graham Cooney
Independent Member

Rod Croon
Harness Code Nominee

Greg McCarthy
Thoroughbred Code Nominee

Alistair Ryan
Independent Member

RACING BOARD LEADERSHIP TEAM

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Chief Executive Officer

Patricia Bolger
General Manager People

Shaun Brooks
General Manager Finance

Stephen Henry
General Manager Services

Andy Kydd
General Manager Broadcasting

Colin Philp
General Manager Technology

Glen Saville
General Manager Betting

Gary Woodham
General Manager Customer

STATEMENT OF INTENT 2017 - 2019

NEW ZEALAND RACING BOARD

TAB

TAB trackside

The Races

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