



annual report 2002

mission to provide growing returns to the New Zealand
racing industry through being a leading race betting, sports betting and gaming
business. **values** compete with attitude, integrity and teamwork.



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TRANSITION GENERAL
MANAGER



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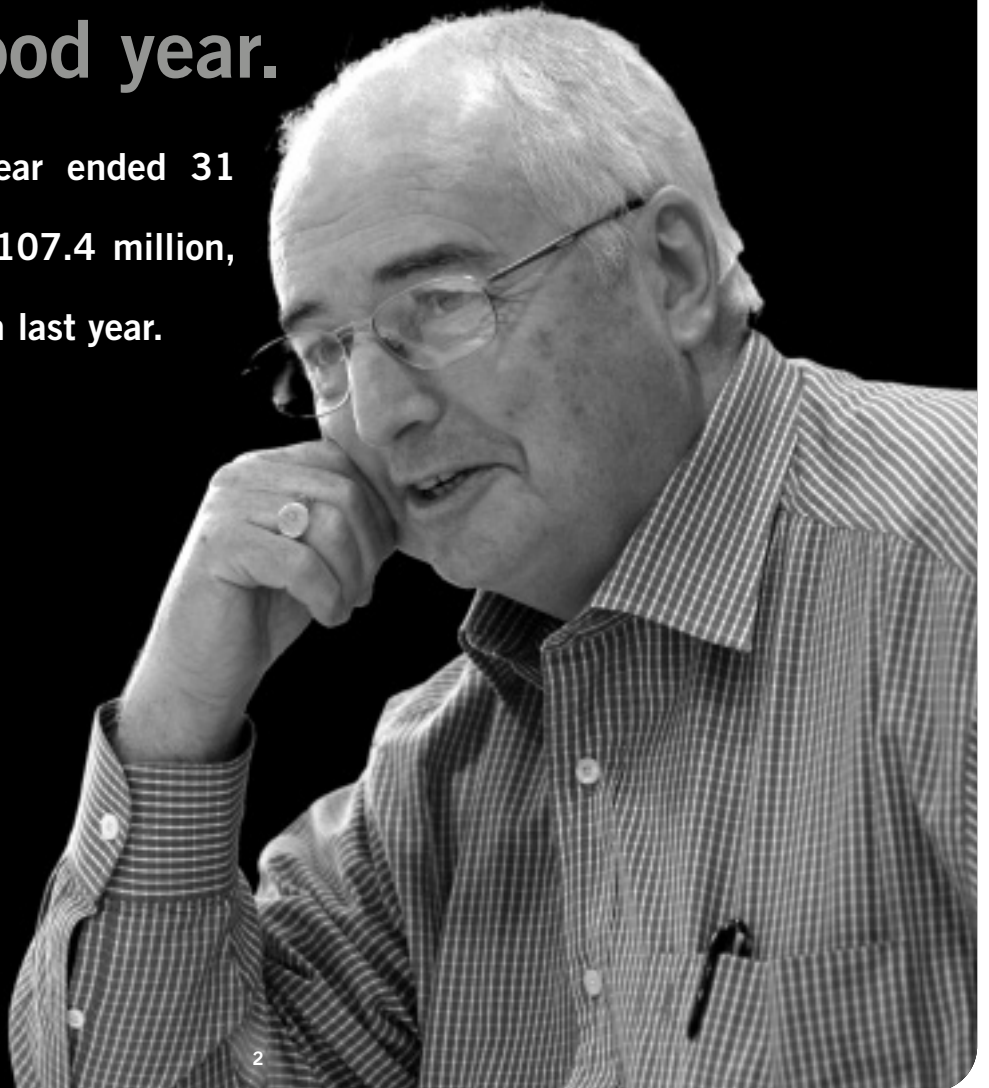
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The TAB entered a period of transition in the 2001/2002 financial year as it awaited the passing of the Racing Bill and the formation of a new body, the New Zealand Racing Board.

However, it was business as usual at the TAB as the organisation continued to offer customers the very best in racing and sports betting products and maximise its return to the racing industry.

From a financial point of view, it's been a good year.

Turnover for the year ended 31 July 2002 was \$1,107.4 million, up \$42.2 million on last year.



We again paid an increased return to the racing industry of which almost \$5 million came from the phenomenal year had by sports betting. However while the return paid to racing clubs and the RIB increased by \$250,000 (from \$59.2 million to \$59.45 million) the return to the Government via taxes increased by \$1.1 million (from \$57.6 million to \$58.7 million).

Over \$1.8 million went to New Zealand sporting associations this year, including \$350,000 to Soccer New Zealand following the record-breaking Soccer World Cup.

While the Racing Bill is yet to be passed, there have been other Government announcements of note.

In September the Government announced the outcome of its Gaming Review and the TAB was pleased to see that racing benefited. The TAB retained its monopoly on race and sports betting and remains the only New Zealand gaming provider allowed to operate over the Internet.

These laws are, however, rapidly becoming impossible to enforce and a number of offshore agencies are currently targeting our major punters with better odds, made possible by paying nothing to the industry.

Quite simply, our industry cannot fund itself from gate takings and television rights. We have at risk \$59.4 million dollars of funding and the Government has at risk \$58.7 million dollars of tax.

Failing to uphold these laws will mean that the racing industry will have an increased need to fund itself, like any other sport.

There are however, a greater number of people happy to use the sport of racing as a medium to take bets at a profit as indeed they do on all other sports.

None of these bookmakers feel the need to support the sport providing the spectacle on which they make their profits. Manchester United, for example, does not rely on income from bookmakers to run their sport, nor indeed does any sport, other than racing, in a number of countries.

It is the law and the law alone that has created the betting monopolies with the requirement to support racing and (in New Zealand only) other sports to a lesser degree.

I'd like to take this opportunity to thank Annette King, who relinquished the racing portfolio after the general election, for her ongoing commitment to, and support of, the racing industry over the last year. I would also like to welcome the new Minister for Racing, Mark Gosche, to the position. We are confident we will be able to work together constructively in what will be challenging and exciting times for the TAB and the racing industry.

In this time of transition, a great deal of responsibility has also been on the shoulders of the transition general manager, Jim Leach, who I thank for his incredible effort over this time.

Finally, I would like to thank the TAB staff, Board and retailers for their dedication to helping the TAB continue to deliver to its customers, the racing industry and sporting bodies.



Rick Bettle, President

Total racing turnover at \$1,002.5m was up \$4.3m | Sports betting turnover at **\$104.9m was up \$37.9m**

The TAB has had a very public face this year with a number of **high profile racing and sports events receiving widespread media coverage**. But, behind the scenes, it was business as usual as we awaited **the passing of the new Racing Bill**.

There were numerous racing highlights throughout the year, but the biggest by far was the Melbourne Cup. In a thrilling race, Ethereal ran down Europe's best, Give The Slip, for a thrilling victory, and gave trainer Sheila Laxon the honour of being the first woman to officially train a Melbourne Cup winner.

Prime Minister Helen Clark was one who predicted an Ethereal win, saying in a TAB media release on Cup day: "The prospect of Cambridge trainer Sheila Laxon being the first woman to train a Melbourne Cup winner means an Ethereal victory would be truly historic."

In harness racing, the win by Kym's Girl in the Canterbury Draught New Zealand Trotting Cup was overshadowed when the exciting trotter Last Sunset trotted 3mins 14.14secs to smash Basil Dean's 17-year-old record in the Air New Zealand Trotting Free For All.

The greyhound highlight was Cecilia Lloyd winning the New Zealand Championship in November – the only New Zealand-bred dog in the field up against seven Aussie rivals!

On the political front, we continued to lobby the Government for more equitable treatment of racing, compared with other gaming options. The contribution of racing to the economy has been recognised by

most Governments where racing is popular and there is no inherent reason why racing should not have that recognition here.

In addition to a fairer tax regime, we have argued that, given the impeccable record of the TAB in New Zealand, with over 50 years experience in the gaming industry, there is a strong case for other gaming products to be available through the TAB, offering a win-win situation for both the Government and the racing industry.

Parliament has made the first step towards a total review of gaming through the Responsible Gambling Bill. However, with racing now commanding such a small percentage of the overall gaming product on offer, there also needs to be some recognition of the cost to racing through the introduction of so many other forms of gambling and the huge contribution of racing to the New Zealand economy.

Overseas bookmakers targeting our customers through new technology, have effectively removed our monopoly on race betting. The continuing decline in on-course attendance is also a serious concern for all involved in the racing industry and both of these issues will need to be of top priority for the New Zealand Racing Board moving forward.

TAB Trackside has delivered another solid performance in keeping racing in front of racing-lovers. The New Zealand TAB, following overseas trends of increasing the volume of products available to the betting public, has raised a number of challenges for live presentation. You cannot always ensure that each event offers pre- and post-event race coverage to everybody's satisfaction but, by and large, TAB Trackside has achieved this and those involved need to be congratulated.

For sports betting, one of the major highlights was Tiger Woods' presence in New Zealand for the New Zealand Golf Open. This guaranteed that there was huge public interest in the event and the TAB's involvement received widespread media coverage. The wet weather failed to dampen the enthusiasm of the golfing fans lucky enough to see him.

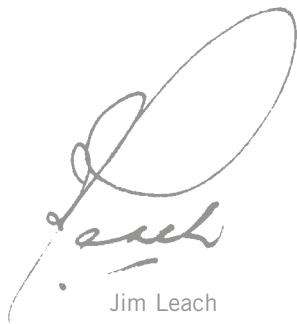
Then with June, came the phenomenal Soccer World Cup and with no New Zealand team to back, New Zealanders backed their usual favourites, such as England and Ireland, as well as international favourites like France, Argentina, Brazil and Italy. The end result far exceeded our expectations.

It's also been an action-packed year for TAB human resources. The development of a new recruitment and selection policy, processes and practises as part of the drive to attract new talent, definitely kept the HR team on their toes.

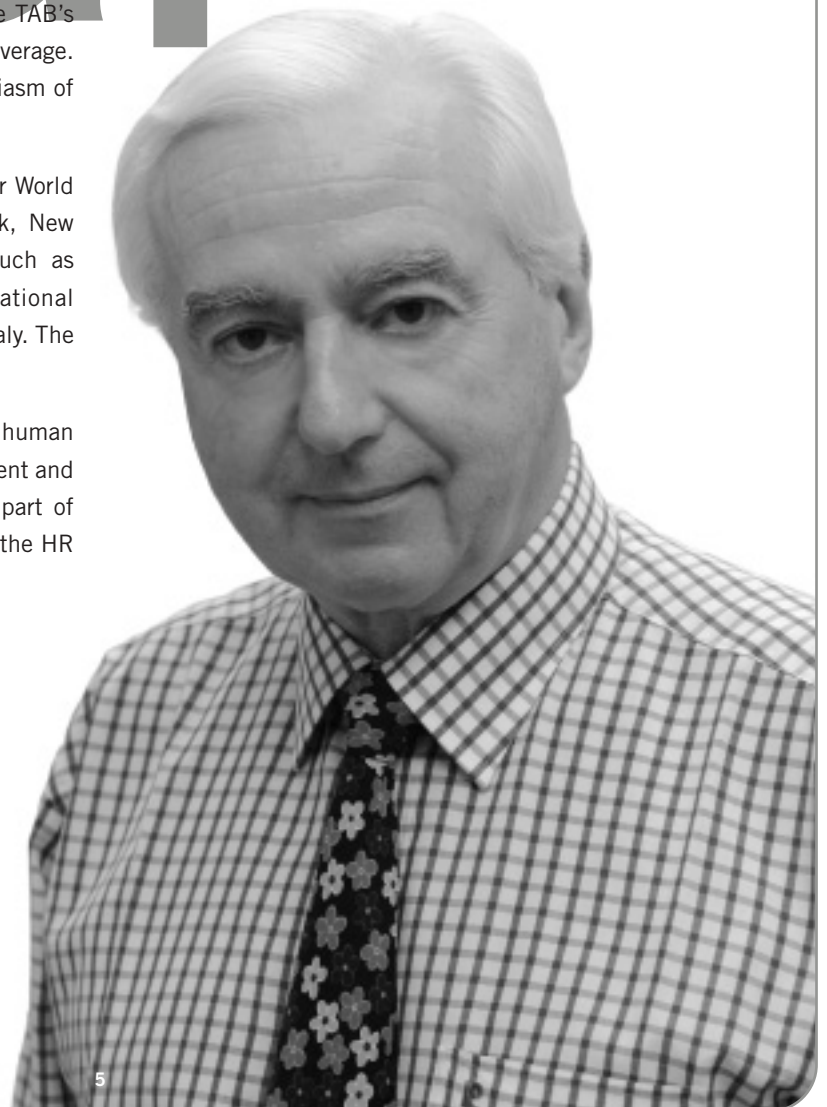
Of the new performance development system, one staff member said, "I enjoy seeing staff grow their knowledge and skills by empowering them to make decisions, to learn by making mistakes and to have confidence in themselves."

I'd like to thank the staff, as well as the TAB retailers and Board, for their hard work and commitment throughout the last year.

We are all looking forward to the introduction of the new Racing Bill, which will give a fresh new look and feel to racing industry administration in New Zealand.



Jim Leach
Transition General Manager



A few good Sheilas

It was a great year for kiwis in the racing industry this year and in particular, a few kiwi Sheilas.

Think Sunline. Sunline headed for her third consecutive Cox Plate win this year, but was narrowly beaten by Northerly, in somewhat controversial circumstances, at the finish line. She also had a huge win in the Doncaster – who would have thought that a mare could lump 58kgs, break 1min 36secs and do it with such ease.

Think Ethereal. Ethereal, winner of the Queensland Oaks in the Winter, then set for the Caulfield Cup. That mission accomplished, should she try and take on the Europeans in the Melbourne Cup? Could she? Of course she could. And she won, carrying the weight of all New Zealand with her.

And think Sheila Laxon. This Sheila put New Zealand on the map and became the first woman to officially train a Melbourne Cup winner. And who could forget the genuine passion and refreshing modesty that Sheila projected with her win?

It's great to be a kiwi.





Sulky smooth

For harness racing, 2001/2002 was a season of adaptation. Owners, trainers and betting customers had to adapt to the new **'classless' handicapping system**, which was implemented in the spring. The levelling out of the average size of harness fields, that had been previously declining, was proof that those affected had **adapted quickly** to these changes.

And after his flight south during the winter, high-profile trainer Mark Purdon had to adapt to life as a Cantabrian, which he did quickly, notching 65 wins and beating brother Barry in the season's training premiership.

Superman of the sulky, Tony Herlihy, also had to adjust – to

life as a trainer. Again it was an outstanding transition as he finished third to his brothers-in-law on the trainers' table and again took out the driver's premiership, with 106 wins.

Elect to Live was this year's Harness Horse of the Year, despite a second placing in the best three-year-old category, and Kym's Girl

took the season's premier race, the New Zealand Trotting Cup at Addington.

Games Bid's win in the inter-dominion trotting final at Harold Park in Sydney is also worth a mention. Trainer Brent Lilley, at 25, is the youngest trainer to win a grand final.

Best in

The NZ Racing Industry Board's announcement that the greyhound code was to receive funding of 8.4% of turnover from 1 August 2002 (in line with the two horse racing codes) provided the greyhound code with **a strong foundation for growth**

The funding fortunes corresponded with the introduction of a new constitution for the Association, which features a more professional Board structure. These progressive changes had an extremely positive impact on the development of greyhound racing in New Zealand.

New Zealand's most prestigious greyhound race – the Duke of Edinburgh Silver Collar – and at the same time encouraged a greater number of casual punters to have a bet on the dogs.

The Auckland Greyhound Racing Club ran four heats for the Silver

The NZGRA is looking at running a similar promotion in the 2002/2003 financial year.

The outright star on the track during the year was Cecilia Lloyd who was named the New Zealand Greyhound of the Year. Prepared for a 13-person syndicate by the

show

The funding increase allowed the NZ Greyhound Racing Association to actively promote greyhound racing as a unique and viable investment in its own right.

The 'Collar the Dollars Big Dog Bet' was one such promotion, which increased the awareness of

Collar at its meeting on May 10 and any bet of \$5 or more (on- or off-course) on races 3 through to 10 was automatically entered into a prize draw for eight \$250 bets on the Silver Collar final, which was run six nights later.

country's leading trainer, John McInerney, Cecilia Lloyd won the NZ Cup and the South Island Championship on his march towards the \$100,000 stakes barrier, which he inevitably broke in the new season.

World Cup coup



Capitalising on the excitement generated worldwide by the 2002 Soccer World Cup saw the TAB smash almost every New Zealand sports betting record.

Betting on the Soccer World Cup topped \$20 million, making it easily the biggest series in TAB sports betting history. This result easily eclipsed the \$5.5 million bet on the last World Cup four years ago.

The TAB paid out more than \$18 million in dividends on the tournament and paid \$1.5 million to the racing industry as a result of our World Cup activity.

The betting bonanza also proved a windfall for New Zealand Soccer. The organisation received more than \$350,000.

New Zealand Soccer's Bill McGowan says that while a large amount was budgeted for, the end total was a very pleasant surprise.

"The success of the World Cup at the TAB once again sends a very strong message as to the popularity of the game in this country, especially where major FIFA events are concerned. The financial spin-off for the game will have an effect from the elite to the grass roots," he said.

A new TAB Internet betting record was also set, with almost \$4 million bet via the web throughout the tournament.

The record World Cup Soccer betting was only one of the reasons for sports betting posting a record turnover of \$104.9 million in 2001/2002 and returning almost \$2 million to national sporting bodies.

Rugby union performed strongly. The introduction of new betting options such as the first stoppage in play, more multiple bets and margin doubles, helped increase rugby turnover to \$28 million, up \$5 million on the previous year. The increased turnover also reflected the consistency of the favourites early in the season (in the first three weeks of this year's Telecom Super 12, every favourite team won).

Rugby league was more popular than ever, reflecting the huge interest generated by a resurgent New Zealand Warriors side. League turnover increased by \$6 million to \$19 million.

More basketball betting options were made available as a response to increased interest in the sport, aided by consistent performances by the Tall Blacks as they prepared for the World Championships. As a result basketball turnover doubled to \$6 million for the year.

Golf provided another sports betting highlight for the year – the appearance of world number one, Tiger Woods, at the New Zealand Open at Paraparaumu. His presence meant that there was huge public interest in the event and the TAB's involvement received widespread media coverage. It was a major event both on- and off-course with two mobile outlets at the Paraparaumu Beach course and a record \$350,000 bet on the Open.

The TAB website **www.tab.co.nz** had another memorable year, **posting a record turnover** and garnering **another top award** to add to its list of achievements.

Virtual

The site won the prestigious 2002 Computerworld Excellence Award for e-business – business to consumer – from finalists Telecom, www.liquid.co.nz and the Auckland City Council.

Racing turnover topped \$40 million up 40% on the previous year while turnover on sports increased by 300% on the previous year to \$21.1 million.

Sports betting growth was driven largely by the quality of sports events held during the year such as Rugby's Super 12 and the Soccer World Cup.

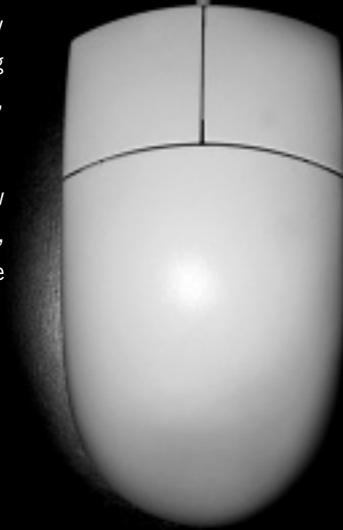
During the World Cup in June the site recorded its biggest ever weekly turnover of \$2.3 million and betting for the month reached \$9.1 million, up 252% on the previous year.

Account usage continues to grow with about 30,000 active accounts, double the total at the end of the previous year.

There are up to 100,000 bets placed every week and the average Internet bet of around \$20 is significantly higher than other TAB channels.

The huge amount of betting information available on the site has seen visitor numbers continue to climb. The site consistently has over 75,000 monthly visitors and June once again provided the most numbers with nearly 90,000 unique users taking advantage of the site's wealth of information during the World Cup.

The PDF form guides for the racing public have been well received and, along with the sports odds in PDF format, account for around 200,000 downloads per month – four times the figure for the previous year.



Turnover of \$61 million was well ahead of expectations

and 58% up on the \$35.6 million for the previous year.

to reality

Melbourne Cup day was the busiest single day on the site with over 27,000 visitors viewing nearly 500,000 pages.

Improvements to the Internet service have continued throughout the year with a complete race schedule page being added, a further speeding up of the betting pages, sports betting improvements, uneven win/place betting, improvements to the account sign-up process.

Virtual Betting

During the Super 12 Rugby season the TAB launched a virtual betting competition "v-bet". The site, www.v-bet.co.nz, allowed fans to bet on the Telecom Super 12 using live odds and betting options, but with virtual money.

More than 18,000 fans signed up, with the winner receiving a trip to the Telecom Super 12 final. With almost \$6 million virtual dollars in turnover, more

than 300,000 virtual bets being placed and the number of new TAB accounts doubling, v-bet has proven to be a winner with both existing and potential customers.

This innovative site teaches people to bet and become familiar with a real betting system without having to risk real dollars. Developments for the future include virtual racing and European soccer competitions.

On 29 January 1982, **betting with the TAB changed forever**, with the introduction of the Jetbet computerised wagering technology.

On 27 June 2002, it got even better.

Jetbet, the TAB's unique betting technology, had a makeover this year and the update on 27 June, which was a huge breakthrough for the technology team, was successful in a number of different ways.

The current system had provided excellent service over the past 20 years. However, during the 1990s it was recognised that both the hardware and the

operating environment were nearing the end of their era.

Since mid-December 2001 all bets, both on- and off-course, have been sold on the new system, including a record Melbourne Cup day, where the system produced over 1.5 million tickets.

A feature of the new Jetbet system is the high degree of reliability and the ability of the system to be quickly restarted on the rare occasions that problems occur. Jetbet also uses commonly-available computer hardware and software, so replacing or upgrading components is now straightforward.



Jetbet gets better

The migration was completed within its budget of \$8 million and involved:

- **600** retail outlets
- **Five** phonebet centres
- **The Internet betting system**
- **The Touch Tone betting system**
- **135,000** phonebet accounts
- **72** racetracks providing services to **137** racing clubs
- **Information systems (agent settlements and decision support)**
- **Sports betting systems**

Implementation of the new system was a massive effort involving hundreds of TAB staff, contractors and agents, who all contributed to its success.

The quality of the Jetbet implementation resulted in TAB winning the "Most Successful Project" category in this year's Computerworld Excellence Awards.

The new Jetbet system is now being enhanced to support several new betting products, the first of which is due for launch in December 2002.

In touch

This year punters let their fingers do the talking as Touch Tone phone betting saw phenomenal growth.

Launched in November 2000, Touch Tone was designed to ease Phonebet call congestion and to give customers more freedom to leave their betting to the last minute.

Before the introduction of Touch Tone in 1999, the TAB took a total of 28.1 million calls per year. In 2001, this grew to 30.2 million. This is largely due to the increased capability of the phone betting system.

A striking demonstration of Touch Tone's capacity was seen on 31 July when the system handled 312 calls simultaneously. A record 41,000 calls were taken in a day on New Year's Day 2002.

Since the start of 2001, the turnover of TAB Touch Tone has increased 110% from \$21.8 million to \$45.8 million in 2002.

There were 5.9 million bets issued via Touch Tone in 2001/2002 –

more than double the 2.8 million bets recorded the previous year. The average bet value through Touch Tone betting is \$7.77.

Touch Tone was promoted on both TAB Trackside and SKY throughout the year, using a range of television commercials and a TAB Trackside 'infomercial'. Touch Tone was also featured in the TAB Talk customer magazine.

& information & innovation

The introduction of form guides in New Zealand's three major metropolitan daily newspapers in October and November 2001 represented another **major breakthrough** in the TAB securing regular mainstream media coverage of New Zealand racing.

On Form was launched in the New Zealand Herald on Friday 5th October 2001. This was closely followed by the introduction of RaceForm in Wellington's Dominion (now Dominion Post) on Friday 12th October 2001 and Punt in Christchurch's The Press on Friday 9th November 2001.

Each newspaper now provides readers with four pages of dedicated mid-week racing form and results on Wednesdays and Thursdays, and up to 20 pages of weekend racing information on Fridays. In addition racing coverage on other days of the week has, in general, also increased slightly, particularly on Saturdays.

Industry and customer feedback to date has been extremely positive. The newspapers have reported increased circulation levels, particularly on Fridays, and the increased form coverage of Australian racing has resulted in a corresponding increase in TAB turnover from Australian racing.

The inaugural show of the new greyhound programme **On the Bunny** went to air on TAB Trackside Channel on Tuesday 2nd July. Fronted by Mark Rosanowski and Luke Radich, the two 10-minute programmes that have played between races on Tuesdays and Wednesdays have been very well received, by horse and greyhound lovers alike.

TAB Trackside also received public recognition this year when the channel obtained two finalist placings with **Top of the Trots** and **The Racing Show** and won the Best Sports Television Programme with **Silverstone Race to the Sky** at the Qantas media awards.

The Sports section was the only category Trackside entered. To fill the three finalist spots and win the overall section was a huge coup in the channel's first experience head-to-head with the major networks.

For a second year in a row **The Racing Show** was awarded a finalist berth in the prestigious Epona Festival in France. The show's story on Mark Todd was a finalist in the reports section of the festival, which is the largest European equine television event.

Presenter Andre Neill was recognised as the Mercedes Broadcaster of the Year for the 2001/02 season with fellow presenter Mick Guerin receiving the equivalent award for harness racing.

On an international scale Trackside sent representatives to Australia for the Miracle Mile, Interdominion and Cox Plate carnivals where we joined Sky Australia's coverage in an ANZAC approach to our coverage. These were popular with viewers and enabled consistent points of view for all Australasian contenders.

Trials have been recognised as an integral betting tool and, in response to this, Trackside put to air two

dedicated trials programmes per week. The thoroughbred trials presented by Steve Davis and Tony Lee and the harness trials presented by Justin Le Lievre have become an essential regular slot on the show.

Our use of Sky's sport channels has continued with **Off The Rails** presented by Lavina Good, a show that looks behind the scenes at premier race days. This show has a quick turn-around with a half hour programme going to air on the night of premier days. It has grown in stature as a magazine-style show filled with all the colour, fun and atmosphere of a big day at the races.

Trackch@t, presented by Sky Sports' Andrea McVeigh, TAB Trackside's Steve Davis and champion jockey Lance O'Sullivan, has continued to receive excellent feedback from both within the industry and beyond.

The TAB also made use of another medium in mid-October when the new radio channel dedicated to racing, Trackside Radio, began broadcasting in Southland on 91.6FM. It now reaches an audience of more than 100,000 people in Southland.

TAB Trackside this year:

Brought coverage of **16,077** races to an average of **350,000** viewers per week

Received **4** national media awards | Took away all **3** spots (winner and **2** runners up) in the Best Sports Television Programme category at the Qantas media awards |

Showcased **12** specialised racing presenters | Celebrated its **9th** birthday as the only dedicated racing channel in New Zealand



making a safe bet

In July 2000, the TAB commissioned a review of TAB agency security out of concern at the rise in the incidence of armed robberies at TAB outlets in New Zealand.

The review cited a lack of comprehensive security protection being provided by the current systems and looked into a number of different avenues for increasing TAB agency security, including the introduction and monitoring of CCTV cameras in agencies.

It seemed that, in particular, the Auckland agencies were the most at risk. In April 2002, the frequency of armed robberies in Auckland had reached a peak level. The same offenders had hit TAB outlets three times in a matter of weeks and therefore Auckland

agencies were given absolute priority. Now, the majority of Auckland agencies have been fitted out with a digital CCTV camera system.

The digital CCTVs have proved to be much more effective than the previous analogue system and have assisted the Police in tracking down offenders on a number of occasions. Our increased CCTV surveillance has had a marked effect on the number of incidents in TAB agencies and, according to the Police, have also become recognised within criminal circles as highly effective security devices.

Future plans include having every TAB outlet fitted with a CCTV system.



Auditors' Report

to the Readers of the Financial Statements of the Totalisator Agency Board for the year ended 31 July 2002.

We have audited the financial statements on pages 24 to 35. The financial statements provide information about the past financial performance and cash flows of the TAB for the year ended 31 July 2002 and its financial position as at that date. This information is stated in accordance with the accounting policies set out on page 27.

Board Members' Responsibilities

The Board Members are responsible for the preparation and presentation of the financial statements which give a true and fair view of the financial position of the TAB as at 31 July 2002 and its financial performance and cash flows for the year ended on that date.

Auditors' Responsibilities

We are responsible for expressing an independent opinion on the financial statements presented by the Board Members and reporting our opinion to you.

Basis of Opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- (a) the significant estimates and judgements made by the Board Members in the preparation of the financial statements; and
- (b) whether the accounting policies are appropriate to the circumstances of the TAB, consistently applied and adequately disclosed.

We conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

We have no relationship with or interests in the TAB other than in our capacity as auditors and providers of other assurance services.

Unqualified Opinion

We have obtained all the information and explanations we have required.

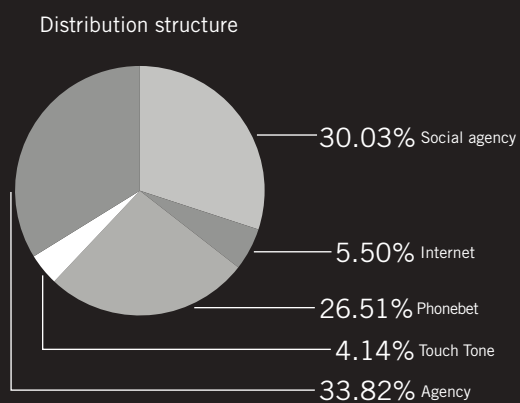
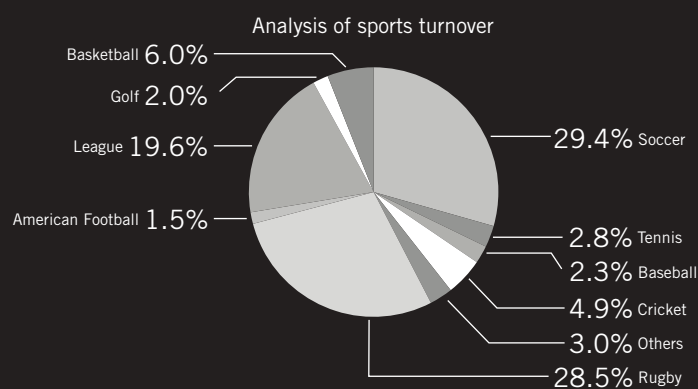
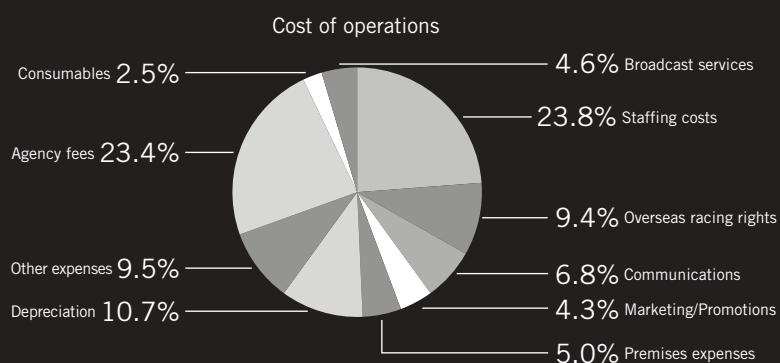
In our opinion:

- (a) proper accounting records have been kept by the TAB as far as appears from our examination of those records; and
- (b) the financial statements on pages 24 to 35:
 - (i) comply with generally accepted accounting practice in New Zealand; and
 - (ii) give a true and fair view of the financial position of the TAB as at 31 July 2002 and its financial performance and cash flows for the year ended on that date.

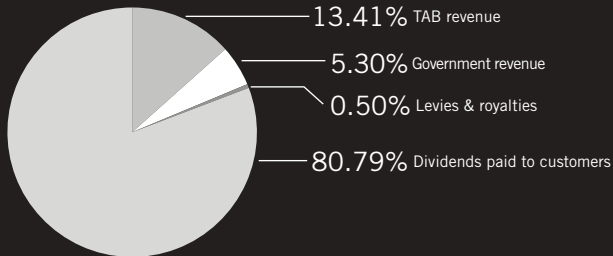
Our audit was completed on 6 December 2002 and our unqualified opinion is expressed as at that date.

Chartered Accountants Wellington

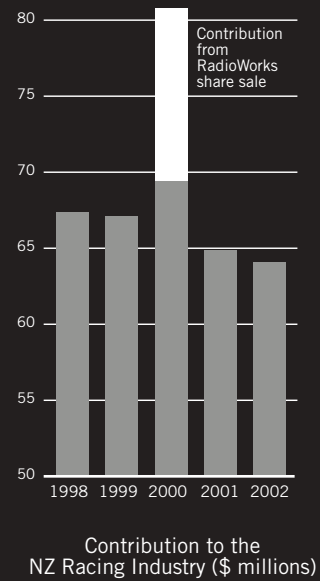
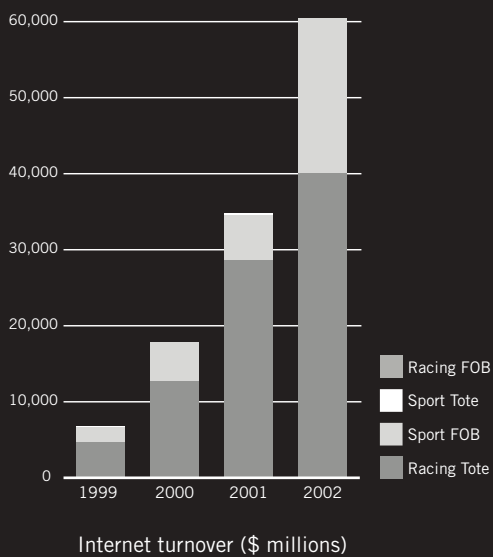
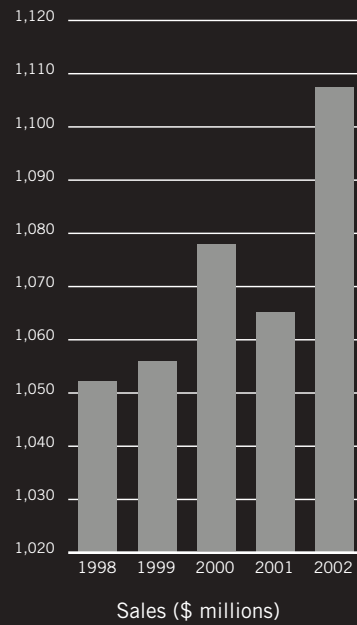
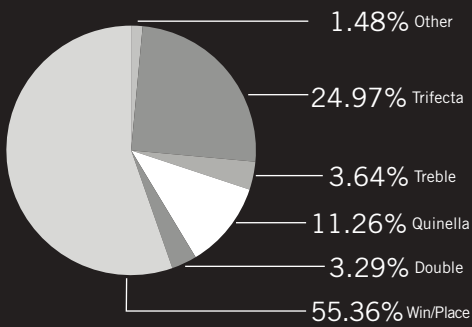
financial statements



Analysis of the betting dollar



Racing bet type



Statement of betting performance measures

| Financial | 2002 | 2001 |
|---|---------------|---------------|
| Turnover | | |
| Racing (\$m) | 1002.5 | 998.2 |
| Sport (\$m) | 104.9 | 67.0 |
| Financial contribution to New Zealand Racing Industry (\$'000) | | |
| – from operations | 67,589 | 64,877 |
| – one off revaluation/reserve movements | (3,349) | – |
| Total | 64,240 | 64,877 |
| – operating return to total turnover (%) | 6.1 | 6.1 |
| – operating return to local racing turnover (%) | 10.0 | 9.3 |
| Other | | |
| Computer up time (%) | 99.98 | 99.99 |
| Average annual sales per cash outlet (\$) (excluding self-service terminals) | 1,913,622 | 1,237,873 |
| Average annual sales per phone account (\$) | 3,169 | 3,836 |
| Average annual sales per internet account (\$) | 2,151 | 1,615 |
| Average bet value (\$) | 7.94 | 7.62 |
| Turnover per capita (\$) (Adults 18 and over) | 401.71 | 409.45 |
| Share of retail spending (%) (Off-course and On-course combined) | 2.4 | 2.6 |
| Approximate number of winning tickets paid out | 18,260,000 | 17,476,000 |
| Local meetings covered by Trackside | 766 | 758 |

Analysis of financial contribution

| | Race Betting Local \$'000 | Race Betting Overseas \$'000 | Sports Betting \$'000 | Race Day Services \$'000 | Total \$'000 |
|-------------------------|---------------------------------|------------------------------------|--------------------------|--------------------------------|-----------------|
| 2002 | | | | | |
| Operating Surplus | 5,260 | – | – | 73 | 5,333 |
| Racing Industry levies | 2,670 | 997 | 39 | – | 3,706 |
| Club product payment | 39,669 | 11,772 | 4,909 | – | 56,350 |
| NZRI costs | 2,200 | – | – | – | 2,200 |
| Operating Return | 49,799 | 12,769 | 4,948 | 73 | 67,589 |

Five year turnover analysis

| OFF-COURSE RACING | 2002 \$m | 2001 \$m | 2000 \$m | 1999 \$m | 1998 \$m |
|-----------------------|----------------|----------------|----------------|----------------|----------------|
| Local | | | | | |
| Galloping | 373.6 | 388.1 | 410.7 | 424.5 | 453.0 |
| Harness | 214.2 | 223.6 | 229.5 | 231.1 | 236.6 |
| Greyhounds | 88.0 | 87.5 | 86.4 | 87.2 | 80.4 |
| 675.8 | 699.2 | 726.6 | 742.8 | 770.0 | |
| Overseas | | | | | |
| Galloping | 276.2 | 254.8 | 248.3 | 213.5 | 194.3 |
| Harness | 32.5 | 26.3 | 16.4 | 19.0 | 18.0 |
| Greyhounds | 0.6 | 0.2 | 0.3 | – | – |
| 309.3 | 281.3 | 265.0 | 232.5 | 212.3 | |
| Six Pack/Pick6 | | | | | |
| Galloping | 4.2 | 3.2 | 2.9 | 4.2 | 3.6 |
| Harness | 9.2 | 9.4 | 10.9 | 8.0 | 8.4 |
| Greyhounds | 1.4 | 2.4 | 3.4 | 4.3 | 5.3 |
| 14.8 | 15.0 | 17.2 | 16.5 | 17.3 | |
| Fixed Odds | 2.6 | 2.7 | 2.6 | 3.0 | 2.6 |
| Total Racing | 1,002.5 | 998.2 | 1,011.4 | 994.8 | 1,002.2 |
| SPORT | | | | | |
| Fixed Odds | 102.2 | 63.5 | 62.0 | 57.0 | 49.3 |
| Totalisator | 2.7 | 3.5 | 4.5 | 4.2 | 0.7 |
| Total Sport | 104.9 | 67.0 | 66.5 | 61.2 | 50.0 |
| TOTAL | 1,107.4 | 1,065.2 | 1,077.9 | 1,056.0 | 1,052.2 |
| BY CHANNEL | | | | | |
| Internet | 60.9 | 35.6 | 18.1 | 6.8 | – |
| Telephone Betting | 339.4 | 340.5 | 353.0 | 349.2 | 362.6 |
| Agency Cash | 374.5 | 385.1 | 410.3 | 414.5 | 415.5 |
| Social Agency Cash | 332.6 | 304.0 | 296.5 | 285.5 | 274.1 |
| 1,107.4 | 1,065.2 | 1,077.9 | 1,056.0 | 1,052.2 | |
| ON-COURSE | | | | | |
| Galloping | 46.6 | 48.2 | 50.4 | 55.1 | 58.1 |
| Harness | 25.3 | 26.4 | 26.8 | 31.0 | 34.0 |
| Greyhounds | 2.9 | 3.1 | 3.4 | 3.2 | 3.7 |
| 74.8 | 77.7 | 80.6 | 89.3 | 95.8 | |
| INTERTRACK * | | | | | |
| Galloping | 8.4 | 9.0 | 8.8 | 9.3 | 9.2 |
| Harness | 3.1 | 2.8 | 2.8 | 3.2 | 3.2 |
| Greyhounds | 0.5 | 1.3 | 1.2 | 0.5 | 0.4 |
| 12.0 | 13.1 | 12.8 | 13.0 | 12.8 | |

* Intertrack betting is included in the on-course totals. The breakdown to codes relates to those clubs where bets were sold.

Five year financial review

| | 2002 \$m | 2001 \$m | 2000 \$m | 1999 \$m | 1998 \$m |
|---------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Turnover | 1,107.4 | 1,065.2 | 1,077.9 | 1,056.0 | 1,052.2 |
| Net betting income | 148.5 | 145.4 | 147.5 | 143.3 | 139.5 |
| Racing services income | 4.4 | 4.5 | 4.7 | 4.9 | 5.1 |
| Other income | 5.2 | 5.2 | 4.8 | 3.3 | 3.8 |
| Cost of operations | 94.3 | 94.8 | 92.4 | 89.2 | 86.0 |
| Club product and NZRI costs/payout | 58.5 | 59.2 | 61.1 | 58.0 | 59.6 |
| Operating surplus | 5.3 | 1.1 | 3.5 | 4.3 | 2.8 |
| Radio Works profit | – | – | 11.4 | – | – |
| Asset Revaluations | (6.7) | – | – | – | – |
| Net surplus | (1.4) | 1.1 | 14.9 | 4.3 | 2.8 |
| Distributed funds | 1.0 | – | 14.6 | 3.1 | 0.5 |

Statement of Financial Performance

for the years ending 31 July

| 2001 \$000 | | notes | 2002 \$000 | Budget 2002 \$000 |
|--------------------|------------------------------------|-------|---------------|-------------------------|
| Revenue | | | | |
| 1,065,206 | Betting turnover | 1 | 1,107,415 | 1,084,853 |
| (856,305) | Dividends paid to customers | 2 | (894,736) | (874,501) |
| (63,506) | Betting deductions | 3 | (64,157) | (63,220) |
| 145,395 | Net betting revenue | 4 | 148,522 | 147,132 |
| 9,719 | Other income | 6 | 9,572 | 10,375 |
| 155,114 | Total operating revenue | | 158,094 | 157,507 |
| Expenditure | | | | |
| 21,647 | Agency fees | | 22,057 | 22,138 |
| 4,481 | Broadcast services | | 4,367 | 4,280 |
| 59,200 | Club product and NZRIB costs | | 58,550 | 60,663 |
| 5,723 | Communications | | 6,452 | 6,255 |
| 2,419 | Consumables | | 2,309 | 2,533 |
| 9,445 | Depreciation | | 10,060 | 11,610 |
| 1,489 | Equipment maintenance | | 1,685 | 1,845 |
| 6,172 | Marketing and promotions | | 4,026 | 2,961 |
| 6,989 | Overseas racing rights | | 8,861 | 8,115 |
| 2,825 | Property rentals | | 2,849 | 2,795 |
| 2,777 | Premises expenses | | 1,869 | 2,177 |
| 23,564 | Staffing costs | | 22,401 | 21,893 |
| 1,904 | Transport costs | | 1,657 | 1,647 |
| 5,365 | Other operating expenses | 7 | 5,618 | 4,655 |
| 154,000 | Total operating expenses | | 152,761 | 153,567 |
| 1,114 | Operating surplus | | 5,333 | 3,940 |
| – | Abnormal item - asset revaluations | 8 | (6,741) | – |
| 1,114 | Net surplus (deficit) | | (1,408) | 3,940 |

In accordance with revised Audit requirements the Capital Retention and **Available for Distribution** amounts are now disclosed in the Statement of Movements in Equity rather than in the Statement of Financial Performance, as they have been in all previous years.

Statement of Movements in Equity

for the years ending 31 July

| 2001 \$000 | | | 2002 \$000 | Budget 2002 \$000 |
|--------------------------|------------------------------------|----|---------------|-------------------------|
| 79,921 | Equity at beginning of year | | 81,568 | 80,919 |
| 1,114 | Net surplus (deficit) | | (1,408) | 3,940 |
| (1,076) | Capital Retention | 10 | (1,011) | – |
| Reserve Movements | | | | |
| – | Release of capital fund | 9 | 1,700 | – |
| – | Release of reserves | 10 | 1,692 | – |
| 38 | Available for distribution | | 973 | 3,940 |
| (38) | Surplus payable to Clubs | | (73) | (20) |
| 1,647 | Other movements in reserves | 10 | (3,707) | (1,561) |
| – | Surplus paid and payable to NZRIB | | (900) | (3,920) |
| 81,568 | Equity at end of year | | 77,861 | 79,358 |

The accompanying accounting policies and notes form part of these financial statements.

Statement of Financial Position

as at 31 July

| 2001 \$000 | | notes | 2002 \$000 | Budget 2002 \$000 |
|---------------|------------------------------|-------|---------------|-------------------------|
| | Equity | | | |
| 1,700 | Capital fund | 9 | – | 1,700 |
| 79,868 | Reserves | 10 | 77,861 | 77,658 |
| 81,568 | Total equity | | 77,861 | 79,358 |
| | <i>Represented by:</i> | | | |
| | Current assets | | | |
| 1,548 | Cash and bank | | 2,153 | 1,000 |
| 25,582 | Investments | 11 | 33,451 | 26,709 |
| 2,245 | Receivables and prepayments | | 2,426 | 4,046 |
| 694 | Inventories | | 491 | 467 |
| 30,069 | | | 38,521 | 32,222 |
| | Non-current assets | | | |
| – | Investments | 11 | 4,661 | – |
| 80,674 | Fixed assets | 12 | 67,096 | 82,669 |
| 80,674 | | | 71,757 | 82,669 |
| 110,743 | Total assets | | 110,278 | 114,891 |
| | Current liabilities | | | |
| 21,834 | Payables | 13 | 22,713 | 23,979 |
| 7,303 | Club product and NZRIB costs | | 8,731 | 7,614 |
| – | NZRIB distribution payable | | 900 | 3,920 |
| 38 | Clubs distribution payable | | 73 | 20 |
| 29,175 | | | 32,417 | 35,533 |
| 81,568 | Net assets | | 77,861 | 79,358 |

The Board of Directors of the New Zealand Totalisator Agency Board authorises these financial statements for issue on 6 December 2002. Signed for and on behalf of the Board,

Rick Bettle



Jim Leach



President

Transition General Manager

The accompanying accounting policies and notes form part of these financial statements.

Statement of Cash Flows

for the years ending 31 July

| 2001 | | | 2002 | Budget |
|-----------------------------|---|-------|-----------|---------------|
| \$000 | | notes | \$000 | 2002 \$000 |
| Operating activities | | | | |
| | Inflows | | | |
| 1,065,206 | Betting turnover | | 1,107,415 | 1,084,853 |
| 4,527 | Racing services income | | 4,447 | 4,456 |
| – | Current dividends & betting deposits | | 1,313 | – |
| 2,164 | Interest received | | 882 | 1,651 |
| 3,549 | Other income | | 2,682 | 3,423 |
| 1,075,446 | | | 1,116,739 | 1,094,383 |
| | Outflows | | | |
| 1,327 | Sporting body royalties | | 1,795 | 1,436 |
| 231 | Current dividends & betting deposits | | – | 136 |
| 856,305 | Dividends paid | | 894,736 | 874,501 |
| 65,780 | Payments to suppliers | | 64,564 | 60,295 |
| 21,062 | Payments to employees | | 20,485 | 20,583 |
| 60,939 | Payments to racing industry | | 56,932 | 60,198 |
| 21,740 | Net GST | | 22,188 | 22,101 |
| 35,713 | Duty paid | | 36,386 | 36,009 |
| 1,063,097 | | | 1,097,086 | 1,075,259 |
| 12,349 | Net cash from operating activities | 18 | 19,653 | 19,124 |
| | Investing activities | | | |
| | Inflows | | | |
| 342 | Disposal of fixed assets | | 1,137 | 450 |
| – | Sale and maturity of investments | | 6,888 | – |
| 342 | | | 8,025 | 450 |
| | Outflows | | | |
| 16,314 | Purchase of fixed assets | | 7,868 | 14,275 |
| 16,314 | Purchase of investments | | 4,672 | – |
| (15,972) | Net cash used in investing activities | | 12,540 | 14,275 |
| | | | (4,515) | (13,825) |
| | Financing activities | | | |
| | Inflows | | | |
| 146 | Interest received | | 66 | – |
| 146 | | | 66 | – |
| | Outflows | | | |
| 3,409 | NZRI distribution | | – | 1,207 |
| 104 | Clubs distribution | | 38 | 6 |
| – | Interest paid | | – | 395 |
| 79 | Overseas racing rights | 10 | 72 | – |
| – | Software support | 10 | 218 | – |
| 343 | Intertrack linking | 10 | 343 | 343 |
| 3,935 | | | 671 | 1,951 |
| (3,789) | Net cash used in financing activities | | (605) | (1,951) |
| (7,412) | Net increase / (decrease) in cash held | | 14,533 | 3,348 |
| 28,483 | Add opening cash brought forward | | 21,071 | 24,361 |
| 21,071 | Ending cash carried forward | | 35,604 | 27,709 |
| | <i>Represented by:</i> | | | |
| 1,548 | Cash and bank balances | | 2,153 | 1,000 |
| 19,523 | Bank deposits and corporate notes | | 33,451 | 26,709 |
| 21,071 | | | 35,604 | 27,709 |

The accompanying accounting policies and notes form part of these financial statements.

Statement of Accounting Policies

For the year ending 31 July 2002

ENTITY REPORTING

These financial statements report on the operations of the New Zealand Totalisator Agency Board. The Racing Act 1971 requires disclosure of budgeted amounts. The budget as approved by the Board and communicated to the NZRIB, is disclosed in these financial statements.

STATUTORY BASE

The New Zealand Totalisator Agency Board is a statutory body established pursuant to the Gaming Amendment Act 1949. These financial statements have been prepared in accordance with the Racing Act 1971 and its subsequent amendments.

GOING CONCERN

The Board of Directors has adopted the going concern basis for the preparation of the financial statements. A Racing Bill is presently before the House of Representatives that will result in the abolishment of the TAB and the operations of the New Zealand Racing Industry Board (NZRIB). It is uncertain when the Racing Bill will be passed. The Racing Bill provides that the assets and liabilities of the TAB will be assumed by the New Zealand Racing Board. For these reasons the financial statements have been prepared on a going concern basis.

MEASUREMENT BASE

The historical cost measurement system underlies the preparation of the financial statements, as modified by the revaluation of land and buildings to their fair value.

ACCOUNTING POLICIES

The financial statements are prepared in accordance with New Zealand generally accepted accounting practice. The accounting policies that materially affect the measurement of financial performance, financial position, and cash flows are set out below.

Revenue

Descriptions of specific terms stated in the statement of financial performance are as follows:

Betting turnover - refers to turnover generated from off-course betting only.

On-course racing services income - refers to income the TAB derives from providing on-course raceday services to racing clubs.

Revenue is recognised at the time the betting event takes place.

Goods and Services Tax (GST)

The statement of financial performance and statement of cash flows are prepared so that all elements are GST exclusive. The GST component in betting turnover represents the GST payable on betting deductions and net betting revenue. All items in the statement of movements in equity and statement of financial position are stated net of GST, with the exception of accounts receivable and payable, which include GST as invoiced.

Fixed Assets and Depreciation

Except for Land and Buildings, fixed assets are stated at cost less accumulated depreciation, unless a permanent diminution in value below cost occurs, in which case fixed assets are valued at the lower value. Land and Buildings have been revalued in accordance with FRS 3, Accounting for Property, Plant and Equipment, by registered valuers to their fair value. Depreciation is calculated on a straight line basis to allocate the cost of the assets over their estimated useful lives, which are reviewed annually by the TAB. The current depreciation rates are as follows:

| | |
|--|---------------------|
| Buildings / improvements | 1%, 2%, 2.5% |
| Leasehold / freehold fitouts | 10%, 15% |
| Plant | 10%, 20% |
| Motor vehicles | 20% |
| Broadcasting equipment | 10% |
| Broadcasting licences | 5% |
| Computer installation | 15% |
| Other computer equipment and applications | 20 - 50% |

Depreciation on racing services fixed assets is treated as a charge against the on-course betting development account.

Surplus Payable to Clubs

Section 83B of the Racing Act 1971 provides for the payment of on-course racing services profits to clubs associated with the operations of the on-course totalisator. From 1 August 1983, the TAB has calculated the "profit" as the surplus arising from on-course racing services operations before interest on fixed capital and depreciation.

Financial Instruments

Financial instruments carried on the statement of financial position include cash and bank balances, investments, receivables and payables. These instruments, with the exception of investments, are stated at their estimated fair value.

Other financial instruments entered into by the TAB include foreign currency forward contracts. The purpose of these instruments is to reduce exposure to fluctuations in foreign currency by establishing the rate at which the assets or liabilities will be settled. Because these hedging contracts have the effect of offsetting gains or losses on the underlying transactions in the physical market, there is no recognition in the financial statements until maturity of the contracts.

Investments

Investments are carried at cost. Premiums and discounts on debt securities are amortised from purchase to maturity on a yield to maturity basis. Within the statement of financial performance, interest income is recognised on an accrual basis, while dividend income is recognised when declared.

Inventories

Inventories are stated at the lower of net realisable value and cost, as determined on the weighted average basis.

Dividend Reserves

These accounts are established in accordance with section 93(3) of the Racing Act 1971. Transfers to these accounts comprise amounts set aside from the dividend pools of Pick6, Six Pack and sports pools betting. Funds accumulated in these accounts are used exclusively for the purpose of supplementing the dividend pool on some occasions when the same form of betting is offered subsequently.

Income Tax

The Totalisator Agency Board is exempt from income tax pursuant to section CB4(1)(i)(i) of the Income Tax Act 1994.

Employee Entitlements

Employee entitlements to salaries and wages, annual and long service leave and other benefits are recognised when they accrue to employees. This includes the estimated liability for annual and long service leave provided for as a result of services rendered by employees up to balance date.

Foreign Exchange

Transactions denominated in a foreign currency are converted at the exchange rate at the date of the transaction. Foreign currency bank balances held at year end are translated at exchange rates current at year end.

Exchange differences and hedging costs arising on contracts entered into as hedges for specific expenditure are deferred until the date of settlement at which time they are included in the measurement of the purchase.

Statement of Cash Flows

Cash

Cash is considered to be Cash On Hand, Current Accounts in banks net of bank overdrafts and corporate notes. In accordance with FRS 10, Statement of Cash Flows, Government Stock and Corporate Bonds are excluded.

Netting

Current dividends and betting deposits have been presented net as transactions are settled over a short period of time.

CHANGES IN ACCOUNTING POLICIES

There has been a significant change in the accounting policy during the year. Under the new policy land and buildings have been revalued in accordance with FRS 3 Accounting for Property, Plant and Equipment and are recorded in the statement of financial position at fair value. Under the previous accounting policy land and buildings were valued at cost. This change in accounting policy has resulted in a net loss on revaluation of \$6.741m, which has been recognised in the statement of financial performance. The Board of Directors adopted this change after reviewing the requirements of FRS 3 Accounting for Property, Plant and Equipment. Other than the change in accounting policy described above, there have been no other changes.

Notes to the Financial Statements for the years ending 31 July

1. Betting Turnover

| | 2002 | Budget 2002 | 2001 |
|-----------------------------------|------------------|------------------|------------------|
| | \$000 | \$000 | \$000 |
| Racing - Totalisator (Tote) | 999,862 | 1,004,000 | 995,477 |
| Racing - Fixed odds betting (FOB) | 2,635 | 3,000 | 2,699 |
| Sports - Totalisator (Tote) | 2,667 | 3,403 | 3,561 |
| Sports - Fixed odds betting (FOB) | 102,251 | 74,450 | 63,469 |
| Turnover including GST | 1,107,415 | 1,084,853 | 1,065,206 |
| GST | 22,270 | 22,101 | 21,903 |
| Turnover net of GST | 1,085,145 | 1,062,752 | 1,043,303 |

2. Dividends Paid to Customers

| | 2002 | Budget 2002 | 2001 |
|-----------------------------|----------------|----------------|----------------|
| | \$000 | \$000 | \$000 |
| Racing - Totalisator | 800,495 | 804,623 | 797,468 |
| Racing - Fixed odds betting | 2,387 | 2,550 | 2,349 |
| Sports - Totalisator | 1,866 | 2,361 | 2,462 |
| Sports - Fixed odds betting | 89,988 | 64,967 | 54,026 |
| | 894,736 | 874,501 | 856,305 |

3. Betting Deductions

| | 2002 | | Budget 2002 | | 2001 |
|--|---------------|------------|----------------|--------------|---------------|
| | Racing | | Sport | | Total |
| | Tote | FOB | Tote | FOB | Total |
| | \$000 | \$000 | \$000 | \$000 | \$000 |
| Racing industry levies (see note 5) | 819 | 39 | – | – | 858 |
| Sporting body royalties | – | – | 177 | 1,618 | 1,795 |
| On-course development levy (see note 10) | 2,848 | – | – | – | 2,848 |
| Totalisator duty | 34,083 | 44 | 142 | 2,117 | 36,386 |
| GST | 20,906 | 28 | 89 | 1,247 | 22,270 |
| | 58,656 | 111 | 408 | 4,982 | 64,157 |
| | | | | | 63,220 |
| | | | | | 63,506 |

4. Segmental Contribution to Net Betting Revenue

| | 2002 | Budget 2002 | 2001 |
|-----------------------------|----------------|----------------|----------------|
| | \$000 | \$000 | \$000 |
| Racing - Totalisator | 140,711 | 140,686 | 138,885 |
| Racing - Fixed odds betting | 137 | 267 | 204 |
| Sports - Totalisator | 393 | 508 | 547 |
| Sports - Fixed odds betting | 7,281 | 5,671 | 5,759 |
| | 148,522 | 147,132 | 145,395 |

5. Racing Industry Levies

| | 2002 | Budget 2002 | 2001 |
|---|------------|----------------|------------|
| | \$000 | \$000 | \$000 |
| Racing - Totalisator | | | |
| As required by section 42 of the Racing Act 1971, the following industry levies were deducted from bets received and paid to the NZRIB. | | | |
| Stakes subsidy levy | 513 | 510 | 507 |
| Amenities levy | 306 | 315 | 312 |
| | 819 | 825 | 819 |
| Racing - Fixed odds betting | | | |
| Turnover levy | 26 | 30 | 27 |
| Gross margin levy | 13 | 23 | 18 |
| | 39 | 53 | 45 |
| | 858 | 878 | 864 |

6. Other Income

| | 2002 | Budget 2002 | 2001 |
|---|--------------|----------------|--------------|
| | \$000 | \$000 | \$000 |
| Interest on: | | | |
| Bank deposits & debt securities | 1,732 | 1,651 | 1,855 |
| Development accounts (surplus) / deficit | (66) | 395 | 155 |
| Dividends | 2 | – | – |
| On-course racing services income | 4,447 | 4,456 | 4,527 |
| Advertising revenue | 674 | 855 | 736 |
| Licence fees | 260 | – | 816 |
| Capital gain from disposal of freehold properties | 707 | 450 | 124 |
| International racing | 1,475 | 1,305 | 1,144 |
| Miscellaneous | 341 | 1,263 | 362 |
| | 9,572 | 10,375 | 9,719 |

7. Operating Expenditure

| | 2002 | Budget 2002 | 2001 |
|------------------------------------|--------------|----------------|--------------|
| | \$000 | \$000 | \$000 |
| Other operating expenses include:- | | | |
| Auditors' remuneration: | | | |
| Auditing services | 57 | 52 | 52 |
| Other services | 42 | 20 | 2 |
| Board members' remuneration | 129 | 124 | 120 |
| Cash handling fees | 595 | 591 | 580 |
| Insurance | 632 | 661 | 621 |
| Loss on fixed asset sales | 638 | 226 | 248 |
| Other expenses | 1,721 | 1,236 | 1,727 |
| Problem gambling levy | 690 | 680 | 680 |
| Rebates | 151 | 151 | 154 |
| Branch operating costs | 227 | 199 | 369 |
| Software support | 736 | 715 | 812 |
| | 5,618 | 4,655 | 5,365 |

8. Asset Revaluation

Land and Buildings were revalued by CB Richard Ellis, registered valuers on 31 July 2002 in accordance with FRS 3, Accounting for Property, Plant and Equipment. The basis of revaluation is fair value. This revaluation has resulted in a net writedown of \$6.741m. Revaluations will be undertaken every 5 years, at a minimum.

9. Capital Fund

| | 2002 \$000 | 2001 \$000 |
|------------------------------|---------------|---------------|
| Balance at beginning of year | 1,700 | 1,700 |
| Released for distribution | (1,700) | – |
| Balance at end of year | – | 1,700 |

The Capital Fund was established under the Gaming Admendment Act 1949 to provide a fund to meet costs and expenses incurred by the TAB in establishing the initial branches, agencies and staff training. It was funded from a 0.5% levy charged on off-course and on-course betting during the first five years of the TAB's existence.

The TAB Board has reviewed the necessity for this reserve and has resolved to release these funds for the benefit of the Industry.

10. Reserves

| | 2002 \$000 | 2001 \$000 |
|---|---------------|---------------|
| Balances | | |
| Off-course betting development account | 56,084 | 55,436 |
| Racing services betting development account | 21,708 | 22,668 |
| Future systems sales reserve | 69 | 72 |
| Asset realisation reserve | – | 1,592 |
| Fixed odds sports betting reserve | – | 100 |
| | 77,861 | 79,868 |

Analysis

Off-course betting development account

| | | |
|---------------------------------------|---------------|---------------|
| Balance at beginning of year | 55,436 | 54,910 |
| Interest on average surplus/(deficit) | (363) | (550) |
| Capital retention * | 1,011 | 1,076 |
| Balance at end of year | 56,084 | 55,436 |

* Amount retained in accordance with Section 80 (2), Racing Act 1971, for capital expenditure purposes.

Racing services betting development account

| | | |
|------------------------------|---------------|---------------|
| Balance at beginning of year | 22,668 | 21,515 |
| On-course development levy | 2,848 | 3,699 |
| Interest on average surplus | 429 | 395 |
| Overseas racing rights | (72) | (79) |
| Intertrack linking costs | (343) | (343) |
| Software support | (218) | – |
| Depreciation | (3,604) | (2,519) |
| Balance at end of year | 21,708 | 22,668 |

10. Reserves (continued)

| | 2002 | 2001 |
|--|-------|-------|
| | \$000 | \$000 |
| Future systems sales reserve | | |
| Balance at beginning of year | 72 | 104 |
| Transfer to statement of financial performance | (3) | (32) |
| Balance at end of year | 69 | 72 |

This reserve is to provide for costs associated with efforts to generate potential sales of TAB developed betting systems.

Asset realisation reserve

| | | |
|------------------------------|---------|-------|
| Balance at beginning of year | 1,592 | 1,592 |
| Released for distribution | (1,592) | – |
| Balance at end of year | – | 1,592 |

This reserve was initially established from profits arising from assets sales and was reclassified as a revenue reserve in 1989. The TAB Board has reviewed the necessity for this reserve and has resolved to release these funds for the benefit of the Industry.

Fixed odds sports betting reserve

| | | |
|------------------------------|-------|-----|
| Balance at beginning of year | 100 | 100 |
| Released for distribution | (100) | – |
| Balance at end of year | – | 100 |

The fixed odds sports betting reserve was established under Section 99R of the Racing Act 1971, at a level determined by the NZRIB. The TAB Board, with the approval of the NZRIB, has determined that this reserve be released for the benefit of the industry.

11. Investments

Fair values are market values, or where such valuation could not be obtained, at the Directors' valuation.

| | 2002 | | 2001 | |
|--------------------|-------------------|-----------------------|-------------------|-----------------------|
| | <i>Fair Value</i> | <i>Carrying Value</i> | <i>Fair Value</i> | <i>Carrying Value</i> |
| | \$000 | \$000 | \$000 | \$000 |
| Investments | | | | |
| Bank deposits | 855 | 855 | 306 | 306 |
| Government stock | – | – | 4,084 | 4,052 |
| Corporate bonds | – | – | 2,075 | 2,007 |
| Corporate notes | 32,802 | 32,596 | 19,370 | 19,217 |
| Short term | 33,657 | 33,451 | 25,835 | 25,582 |
| Corporate bonds | 4,774 | 4,661 | – | – |
| Long term | 4,774 | 4,661 | – | – |
| Total | 38,431 | 38,112 | 25,835 | 25,582 |

Effective interest rates at 31 July 2002 range between 5.75% and 7.5% (5.82% and 7.88% at 31 July 2001).

12. Fixed Assets

| | 2002 | | | | 2001 | | | |
|---|------------------------------|--------------------------------------|----------------------------|---------------------------------------|---------------|--------------------------------------|----------------------------|---------------------------------------|
| | cost / valuation \$000 | accumulated depreciation \$000 | net book value \$000 | current year depreciation \$000 | cost \$000 | accumulated depreciation \$000 | net book value \$000 | current year depreciation \$000 |
| Freehold land at valuation | 4,697 | – | 4,697 | – | 4,342 | – | 4,342 | – |
| Freehold buildings at valuation | 11,635 | – | 11,635 | 223 | 21,967 | 2,757 | 19,210 | 207 |
| | 16,332 | – | 16,332 | 223 | 26,309 | 2,757 | 23,552 | 207 |
| Freehold property alterations, fixtures, fittings and equipment | 18,798 | 15,328 | 3,470 | 1,194 | 18,319 | 14,652 | 3,667 | 1,730 |
| Leasehold property alterations, fixtures, fittings and equipment | 12,390 | 7,184 | 5,206 | 1,643 | 16,144 | 9,410 | 6,734 | 1,696 |
| Motor vehicles | 3,293 | 2,161 | 1,132 | 240 | 3,354 | 2,040 | 1,314 | 251 |
| Broadcasting | 21,020 | 17,708 | 3,312 | 567 | 20,641 | 16,954 | 3,687 | 722 |
| Computer installation | 82,853 | 46,763 | 36,090 | 6,193 | 82,277 | 57,819 | 24,458 | 4,839 |
| Assets under development | 1,554 | – | 1,554 | – | 17,262 | – | 17,262 | – |
| | 156,240 | 89,144 | 67,096 | 10,060 | 184,306 | 103,632 | 80,674 | 9,445 |

The reduction in freehold land and buildings between fiscal 2002 (\$16.3m) and 2001 (\$26.3m) is due to the revaluation of all freehold land and buildings resulting in a loss on revaluation of \$6.741m and the reversal of accumulated depreciation of \$2.9m. In addition three properties have also been sold. The reduction in leasehold property alterations, fixtures, fittings and equipment between fiscal 2002 (\$12.4m) and fiscal 2001 (\$16.1m) is due to disposals and write offs as a result of branch and agency closures. The capital spend for JetBet II, the TAB's new wagering system was completed in fiscal 2002 and the asset was created under the category computer installations. The equipment associated with the old wagering system has been written off. The reduction in Assets under development from \$17.3m in fiscal 2001 to \$1.6m reflects the completion of JetBet II.

13. Payables

| | 2002 Total \$000 | 2001 Total \$000 |
|---|------------------------|------------------------|
| Dividend reserve | 1,085 | 627 |
| Current unclaimed dividends | 2,692 | 2,615 |
| Telephone and betting deposits | 8,910 | 8,134 |
| Trade creditors | 7,885 | 8,290 |
| Annual and long service leave liability | 1,781 | 1,792 |
| Estimated self insurance liability | 360 | 376 |
| | 22,713 | 21,834 |

Analysis – dividend reserve

| | | |
|-------------------------------------|-------|---------|
| Balance at beginning of year | 627 | 998 |
| Amounts retained from dividend pool | 1,210 | 1,272 |
| Amounts released to dividends | (752) | (1,643) |
| Balance at end of year | 1,085 | 627 |

14. Commitments

Capital

Commitments for capital expenditure contractually obligated at 31 July 2002 and not provided for in these financial statements amounted to \$147,000 (\$140,000 at 31 July 2001).

Lease

The TAB had the following commitments under leases of premises as at 31 July:

| | 2002 \$000 | 2001 \$000 |
|-------------------|---------------|---------------|
| Current | 2,261 | 2,534 |
| One to two years | 1,364 | 1,641 |
| Two to five years | 1,349 | 1,551 |
| Over five years | 99 | 86 |

15. Contingent Liability

The Directors are not aware of any condition or situation as at balance date that would require the disclosure of a material contingent liability (\$nil at 31 July 2001).

16. Financial Instruments

The following financial assets and liabilities have been recognised in the financial statements.

| | 2002 \$000 | 2001 \$000 |
|---|---------------|---------------|
| Receivables and prepayments | 2,426 | 2,245 |
| Investments | 38,112 | 25,582 |
| Cash and bank balances | 2,153 | 1,548 |
| Payables | (22,713) | (21,834) |
| Net carrying amount of recognised financial instruments | 19,978 | 7,541 |

Credit risk

Credit risk is the risk that an outside party will not be able to meet its obligations to the TAB. Financial instruments which subject the TAB to credit risk consist principally of cash, investments and receivables. The TAB's policy is to hold investments with institutions that have a NZ Standard and Poors rating of no less than A2. Receivables do not have a concentration of credit risk due to the number and spread of customers in relationship to the size of the balance. Accordingly the TAB believes it has no significant concentration of credit risk.

continued overleaf

Interest rate risk

Interest rate risk is the risk that interest rates will change, decreasing the return on investments. The spread of interest rates on the TAB's investments are presented in note 11.

The following table identifies the periods in which interest rates are subject to review on financial assets and liabilities.

| | 2002 \$000 | | | | 2001 \$000 | | | |
|-------------------------|--------------------------------|-----------|-----------|--------|--------------------------------|-----------|-----------|--------|
| | Maturities (at carrying value) | | | | Maturities (at carrying value) | | | |
| | current | 1-5 years | > 5 years | Total | Current | 1-5 years | > 5 years | Total |
| Investments | 33,451 | 3,161 | 1,500 | 38,112 | 25,582 | – | – | 25,582 |
| Cash and bank balances | 2,153 | – | – | 2,153 | 1,548 | – | – | 1,548 |
| | 35,604 | 3,161 | 1,500 | 40,265 | 27,130 | – | – | 27,130 |
| Effective interest rate | 5.93% | 6.94% | 7.50% | | 6.44% | | | |

Liquidity risk

Liquidity risk is the risk that funds will not be available to satisfy regular and irregular financial obligations. The TAB is required to settle the retention of Club Product and NZRIB costs on 31 October each year. This factor along with the proposed timing of capital expenditure in the new financial year requires the TAB to hold a significant amount of its investment portfolio on a short term basis at balance date.

Currency risk

Currency risk is the risk that the New Zealand dollar equivalent of amounts payable in foreign currencies will increase due to adverse movements in foreign exchange rates. The TAB enters into foreign currency forward exchange contracts in order to manage its exposure to fluctuations in foreign currency exchange rates on major items of expenditure. Total cover under forward exchange contracts at balance date was \$nil (\$nil at 31 July 2001). The TAB also holds foreign currency bank accounts and foreign currency denominated accounts with overseas betting agencies. Total foreign currency exposure at balance date was \$754,577 (\$554,903 at 31 July 2001).

Fair values

Fair values for investments are stated at market value, or where such valuation could not be obtained, investments are stated at the Directors' valuation.

| | 2002 Total \$000 | 2001 Total \$000 |
|---|------------------------|------------------------|
| Recognised financial instruments | | |
| Receivables and prepayments | 2,426 | 2,245 |
| Investments | 38,431 | 25,835 |
| Cash and bank balances | 2,153 | 1,548 |
| Payables | (22,713) | (21,834) |
| | 20,297 | 7,794 |

17. Related Party Transactions

The NZRIB is 'considered' to be a related party. The Transition General Manager of the TAB is also the Acting Chief Executive Officer of the NZRIB. Mr Rick Bettle and Mr Tom Jamison are members of both the New Zealand Racing Industry and TAB Boards of Directors.

Mr Tom Jamison, a member of the Board of Directors, rendered consultancy services in the name of Sustema Consultancy of \$77,600 to the TAB in the ordinary course of business. No amounts remain outstanding at 31 July 2002 (\$nil as at 31 July 2001). No amounts owed by related parties have been written off or forgiven during the year.

18. Statement of Cash Flows – Reconciliation

Reconciliation of operating surplus to net cash from operating activities

| | 2002 \$000 | 2001 \$000 |
|---|---------------|----------------|
| Operating surplus | 5,333 | 1,114 |
| Impact of non cash items: | | |
| Depreciation | 10,060 | 9,445 |
| On-course development levy | 2,848 | 3,699 |
| Amortisation of investment premiums | (819) | 115 |
| | 12,089 | 13,259 |
| Impact of movements in working capital items: | | |
| Current unclaimed dividends | 535 | (495) |
| Telephone and betting deposits | 776 | 264 |
| Net GST | 82 | 163 |
| Industry liability | 1,428 | (1,493) |
| Trade creditors and self insurance provision | (538) | (2,440) |
| Annual and long service leave | (11) | 125 |
| Interest accrual | 35 | 39 |
| Prepayments | (473) | 104 |
| Sundry receivables | 292 | 1,709 |
| Inventory | 203 | (92) |
| Future systems sales reserve | (3) | (32) |
| | 2,326 | (2,148) |
| Items classified as investing activities: | | |
| Loss on fixed asset disposals | 643 | 248 |
| Capital gain from disposal of freehold properties | (738) | (124) |
| | (95) | 124 |
| Net cash from operating activities | 19,653 | 12,349 |

19. Financial Performance Targets

| | 2002 \$000 | Budget 2002 \$000 | 2001 \$000 |
|--|------------------|-------------------------|---------------|
| Betting turnover | 1,107,415 | 1,084,853 | 1,065,206 |
| Net betting revenue | 148,522 | 147,132 | 145,395 |
| Club Product payment | 56,350 | 58,463 | 56,700 |
| NZRIB costs | 2,200 | 2,200 | 2,500 |
| Racing industry levies | 858 | 878 | 864 |
| On-course development levy | 2,848 | 2,796 | 3,699 |
| Operating surplus | 5,333 | 3,940 | 1,114 |
| Operating return generated for the racing industry from core activities | 67,589 | 68,277 | 64,877 |
| Return as a percentage of turnover | 6.10% | 6.29% | 6.09% |
| Return as a percentage of net betting revenue | 45.51% | 46.41% | 44.62% |

Further to the operating return generated of \$67.6m, a number of one-off abnormal items impacted on the fiscal 2002 total return. These items were the asset revaluation writedown of \$6.7m and the release of various reserves totalling \$3.4m, namely the capital fund, asset realisation reserve and fixed odds sports betting reserve.

The BAT team

Jim Leach, Transition General Manager

Lloyd Bell, General Manager, Corporate Services

Richard Ellerington, Acting General Manager, Operations

Philip Abraham, General Manager, Retail and Marketing

Warwick Wright, General Manager, Technical Services

Lynley Sinclair, Human Resources Manager

Paul Alpe, Audit Manager

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Auditor

PricewaterhouseCoopers

Bank

Bank of New Zealand, Wellington

