

Contents

| | | |
|--------------------------|--|-----------|
| Snapshot 2006/07 | | 05 |
| Chairman's Report | | 07 |
| Board Members | | 11 |
| Chief Executive's Review | | 13 |
| Code Champions | | 19 |
| Sports Wagering | | 21 |
| On-course | | 25 |
| Responsible Gambling | | 26 |
| Governance | | 28 |
| Our People | | 30 |
| Financial Statements | | 35 |
| Audit Report | | 53 |
| Directory | | 55 |



Vision & Values

Our vision is to lead New Zealand racing to deliver greater success and excitement.

Our values:

- **Innovation** - look for new ways to advance, seek creative solutions, create opportunities and become more receptive to change
- **Valuing People** – recognise, retain, nurture and develop individuals in the organisation, work to individual strengths and serve as you wish to be served
- **Dynamism** –focus on change and move forward, think big, start small and scale fast
- **Teamwork** – combine our experience and skills by working together effectively and leverage these principal resources with effective communication
- **Passion** – have strong beliefs in the industry, be considerate and enthusiastic about your contribution and have fun in the workplace
- **Integrity** – have transparency of purpose, fulfill our social responsibilities and do the right thing all the time.

Snapshot 2006/07

- **New Zealand Racing Board signs historic agreement with Tabcorp**
- \$2.5 million investment in big screen entertainment
- **Net stakes for all three racing Codes have increased by 45% since 2003/04**
- St John charity donation boxes placed in TAB outlets throughout NZ
- **Total turnover hits a record high of \$1.436 billion**
- **\$45 million increase in annual operating earnings since 2003/04**
- Touch Tone, Phonebet and Internet wagering channels service more than 100,000 TAB account holders
- **Lower take out rates for win, place and quinella products expected to return \$15 million per annum to wagers within two years**
- **Operating surplus was \$121.7 million, up more than 40% on last year, comprising both net benefit from duty changes and 9% improvement in operating performance**
- www.tab.co.nz is now placed among the top five sites in New Zealand
- Regional event management workshops provide clubs with practical tools to develop successful racing events
- Trackside Television enhances graphical presentation
- **Major racing carnivals contribute more than \$30 million to local economies**
- Commingled pools lower price volatility
- Graduate development programme brings new skills to racing industry
- **Restructured laboratory contacts to maintain best practice**
- Trackside Television attracts more than 275,000 viewers each week
- **Domestic tote turnover reaches an eight year high of \$834 million, up 5.2% on the previous season**
- **Destination Summer Holiday Racing stimulates 31% growth in new customers attending racing events**
- Investment in six new outside broadcast vans to aid superior on-course production presence
- **Significant industry benefits from the alignment of tax duties and the accelerated depreciation rates on bloodstock**
- 700 retail outlets; 1200 tote terminals plus 800 on-course tote terminals
- Appointment of risk management & audit manager
- Minimum bet placed via Phonebet channel raised to \$5
- Customer relationship management tool increases our ability to tailor products and services to satisfy customer demands
- TAB retail network moves to Telecom NZ's Internet Protocol network
- **Targeted payments of \$6 million have been made through industry initiatives including maiden starter incentives, matched sponsorship funding to clubs and travel subsidies.**
- **Committed \$1.5 million over five years to the Massey University Partnership for Excellence**
- Trackside broadcasts more than 950 race meetings each year, live 12 hours per day, 363 days a year
- Trackside imports race coverage from England's Royal Ascot
- Introduction of Thoroughbred racing from Western Australia adds new wagering dimension for customers
- Financial management and reporting system to enhance business communications
- New Trackside studio built in Hamilton
- Opportunities for Phonebet operators to achieve National Certificate in Contact Centre Operations
- New look TAB retail agency wins interior design award
- TAB celebrates 10 years of fixed odds sports betting
- **\$17.5 million paid to New Zealand sporting bodies since 1996**
- **Six sporting bodies received more than \$100,000 from us in the year ended 31 July 2007**
- Wireless betting technology developed to enable us to take wagering to the people at major events
- Increased fixed odds betting options
- **Multi bets are now a key component of our fixed odds wagering business, especially fixed odds sports betting**
- 11 million Phonetbet operator assisted calls and 22 million Touch Tone betting calls per year.
- Territorial Authorities review Class 4 Gambling Venue Policies as a result of New Zealand Racing Board submissions
- 1258 staff responsible for supervising betting across the industry received problem gambling awareness training
- New touch screen information stations for sports options and Internet browsing facilities for inner city TAB customers
- **Increased Australian raceform now available at www.tab.co.nz**
- New Zealand Racing Board employees participate in Industry Familiarisation programme
- Focus on network planning to enhance retail distribution network



DISTRIBUTIONS OF
TO THE NZ RACING
\$112.7 MILLION
CODES FOR 2006 / 07

DISTRIBUTIONS OF \$112.7 MILLION
TO THE NZ RACING
CODES FOR 2006 / 07

Chairman's Report

On behalf of the Board, I am pleased to report the New Zealand Racing Board has achieved record growth for the 2006/07 year.

Turnover increased 5.2% to \$1.436 billion and operating surplus was \$121.7 million, up more than 40% on last year, comprising both the net benefit from duty changes implemented in August 2006 and a 9% improvement in our underlying operating performance.

Since the New Zealand Racing Board's inception, the Board has achieved a significant uplift in performance - a \$45 million increase in annual operating earnings since 2003/04.

With the passage of the Racing Act 2003, and the merging of the Racing Industry Board and the TAB, government acknowledged the importance of the industry to the New Zealand economy and communities across the country. And it empowered the racing industry to accept responsibility for its own affairs.

The appointment of the Rt Hon Winston Peters as the Minister for Racing has seen our industry take some major steps forward. The alignment of tax duties, the accelerated depreciation rates on bloodstock and the creation of the Racing Safety Development Fund, all initiatives from the Minister's office, will be of great



Michael Stiassny
Chairman

benefit to our industry. We are very grateful for the Minister's support. These changes all form part of the platform on which the New Zealand Racing Board is determined to build a whole new era for racing, significantly strengthening our ability to compete on the international stage.

Other important parts of the NZ Racing Board's platform for growth include a mix of investments in capital, operations and people, together with an already strong improvement in our operating results. In September 2007, we took delivery of the first of six new digital outside broadcast vans; part of a \$25 million capital investment programme which also includes upgraded judicial coverage, new betting terminals (both operator controlled and self-serve), an improved internet protocol across our retail network, a financial management and information system to enhance business communications and a customer relationship management system.

The Board continues to focus its attention on enriching the customers' on-course experience. NZ Racing Board-led initiatives such as big screen entertainment, wireless betting terminals and having our own fixed odds bookies on-course, together with the successful Destination Summer Holiday Racing programme, have seen a resurgence in on-course attendance.

Now in its third year, the Destination Summer Holiday Racing programme has fast become an iconic on-course brand and has encouraged racing clubs throughout New Zealand to develop new strategies for packaging their on-course product.

Chairman's Report



Moving forward, the Board is introducing an on-course "Christmas at the Races" brand as well as marquee packages to enhance revenue generating opportunities for clubs.

The industry's ability to supply consistent racing product remains one of the Board's priorities. We are sensitive to the importance of breeders and owners in supplying the animals that come racing, and the need for them to have the confidence of a fair risk/reward ratio when investing in our industry. On top of increased stakes money, targeted payments of \$6 million have been made through industry initiatives including maiden starter incentives, matched sponsorship funding to clubs and travel subsidies. In addition, a further \$1.5 million has been committed over five years to the Massey University Partnership for Excellence. Under this arrangement the government, through the Tertiary Education Commission, has made a \$5 million suspensory loan in support of our research and development programme. Racing and breeding are major contributors to the economy and it is important that we continue to ensure that this is supported by the highest quality research, which is focussed on issues critical to the future well-being of our industry.

The NZ Racing Board continues to look for opportunities to increase returns to our TAB customers. In November 2006, take out rates for win and place products were lowered and as from

1 August 2007 the quinella take out rate has also been reduced. New Zealand now deducts the same take out rate as Australia for all three products, further raising the Board's commitment to the customer through increased dividend payments. These changes are expected to return approximately \$15 million per annum to wagers within two years.

We have continued to deliver increased funding to New Zealand sporting bodies and have experienced strong turnover growth across all 29 sports on which betting is offered by the New Zealand TAB. Since sports betting began in June 1996, we have distributed more than \$17.5 million to New Zealand sporting bodies as their share of the wagering activity on sports betting through the New Zealand TAB. In the year just ended, six sporting bodies received more than \$100,000 from us. As we look to diversify the sports betting options currently available to customers, New Zealand sporting bodies can look forward to increased levy payments in the future.

The Board is committed to establishing and maintaining best practice on anything to do with integrity. This covers all facets of our own operations, including bookmaking, harm minimisation and prevention, as well as our own risk management practices.

Like any large business, the NZ Racing Board faces a number of operational risks. The inherent risks associated with our day-to-day business can lead to a financial loss, a loss of revenue opportunities or have an adverse impact on our reputation. Earlier this year we appointed a risk management and audit manager to help the Board more effectively understand, assess and manage our operational risk and compliance profile; and to establish a refined legal and internal audit management model.

We are also conducting a review of the Judicial Control Authority processes and related race-day disciplines; and, as a pre-requisite to that, we have restructured the racing laboratory contracts between the laboratory, the Codes and the Board. The NZ Racing Board is working with the Codes to review and assess, in consultation with the Judicial Control Authority, what is required for the Judicial Control Authority and judicial panels to deliver best practice. The review is considering the appropriate level of funding to sustain a best practice model, and will also comment on whether the Greyhound Code should come under the operation of the JCA and, if so, when and on what basis. This will also involve a

vigorous review of the wider industry's integrity functions, such as the roles and responsibilities of inspectors, stipendiary stewards and drug sample collection, to ensure they align with and meet the same best practice requirements.

Integrity is an industry issue impacting the whole racing and wagering brand. Under the current governance structure in New Zealand this branding is fragmented by Code which can often lead to inconsistencies in what is considered best practice. The Board is working towards simplifying this framework to ensure we are presenting consistent standards across the industry, to wagering customers and potential industry entrants. We must earn the confidence of all these parties, and indeed the wider New Zealand public, if our industry is to truly compete in the entertainment sector.

Since balance date, we have also had to face the challenge of a biosecurity threat due to the outbreak of the Equine Influenza virus in Australia. The full impact of the Equine Influenza in Australia is still emerging but it has become very clear that the impact on New Zealand will be felt for some time.

In October, almost 70 representatives from the New Zealand equine and racing community attended an Equine Influenza Forum hosted by the New Zealand Racing Board. The Forum provided information about Equine Influenza and its potential impact on the racing industry and the New Zealand economy. Equine Health Association and MAF Biosecurity officials discussed the pros and cons of vaccination programmes and the wider implications for New Zealand in relation to our international trading status.

Currently MAF Biosecurity does not advocate pre-emptive vaccination and only holds registration of Equine Influenza vaccines for emergency use in event of an outbreak. With a horse population here never before exposed to this disease, that positioning on vaccinations requires the strictest border controls and heightened awareness for all travellers into New Zealand from infected territories.

As an outcome from the Forum, we are working closely with MAF Biosecurity officials, the Equine Health Association and the wider equine industry on risk and crisis management issues. The immediate priority is the level of preparedness in the event

of an outbreak of Equine Influenza anywhere in New Zealand. Beyond that, we are leading the establishment of a co-ordinated industry planning group to help equine communities and individuals in the prevention, planning and response to - and recovery from - infectious outbreaks. This will build on the operational and technical groundwork already laid over several years by MAF Biosecurity and the Equine Health Association, as well as other contingency planning considerations.

Looking forward at the core racing and wagering activities, there are real opportunities in the season ahead. Continued improvements will accrue from the new calendar template and funding model put in place with the racing Codes as part of the agreements recently entered into with Australia's Tabcorp.

The introduction of commingling and the related International Marketing Agreement with Tabcorp-owned Sky Channel Australia are expected to generate significant benefits to the racing industry in New Zealand by ensuring our place in the global network of racing and wagering. The NZ Racing Board has underwritten a



Chairman's Report

minimum distribution of \$115 million to the Codes in the 2007/08 season, in recognition of each Code's adjustments, sacrifices and associated risks in supporting these core changes to the way the industry needs to operate going forward.

In the year ahead, we will look to extend the internationalisation alliances with Tabcorp to include new wagering products. However, we also recognise the critical need to provide non-traditional wagering opportunities such as are available elsewhere, including making prices on events such as "Dancing with the Stars", "NZ Idol" and national elections. And, in that regard, we will be seeking government and industry support for this initiative. Currently, foreign operators can offer our customers prices on such events, for no benefit to New Zealand or the New Zealand controlling organisers. This is a direct customer, business, community and economic loss to New Zealand. We also want to explore virtual racing opportunities through our retail outlets. Virtual racing is already well accepted in places such as Australia and the United Kingdom where it is proving very popular amongst the wagerers.

Finally, the NZ Racing Board has experienced some historic changes in the past year. On behalf of the Board, I would like to extend my thanks to Graeme Hansen and his management team for their perseverance and skill in delivering a number of initiatives this year, including bringing the agreements with Tabcorp to fruition and their commitment to overall industry growth.

I would also like to acknowledge the contribution all three Codes have made in enabling the negotiations with Tabcorp to progress to final agreement and for their support in establishing this new platform for racing in New Zealand.

During the year Board members Warren Larsen, Jim Wakefield and Alan Jackson completed their terms of office. We welcomed the appointment of Ray O'Connor as the Harness racing nominee (from 1 December 2006) and independent member Liz Dawson (from 1 August 2007) to the Board.

The season ahead presents us with a new set of challenges and we will continue to work in partnership with the Codes, government and industry stakeholders to build on the Board's platform for growth. We have confidence in our ability to secure future revenue generating opportunities for our industry that will in time command the respect of the global racing and wagering community and deliver greater returns to our industry and the New Zealand economy.



Michael Stiasny | Chairman

Board Members



Michael Stiasny | Chairman
(from 1 January 2007)



Alistair Sutherland
Thoroughbred Racing
Nominee



Julie Crengle
Independent Member



Liz Dawson
Independent Member
(from 1 August 2007)



Warren Bell
Independent Member



Thayne Green
Greyhound Racing Nominee



Ray O'Connor
Harness Racing Nominee
(from 1 December 2006)

Other Board Members during the year in review

Warren Larsen | Previous Chairman
(until 31 December 2006)

Jim Wakefield | Previous Harness Nominated Member
(until 30 November 2006)

Alan Jackson | Previous Independent Member
(until 31 December 2006)



Total wagering turnover
\$1.436 BILLION

Chief Executive's Review

Record wagering turnover, continued growth across our domestic business streams and increased industry distributions - a very good year for the New Zealand Racing Board.

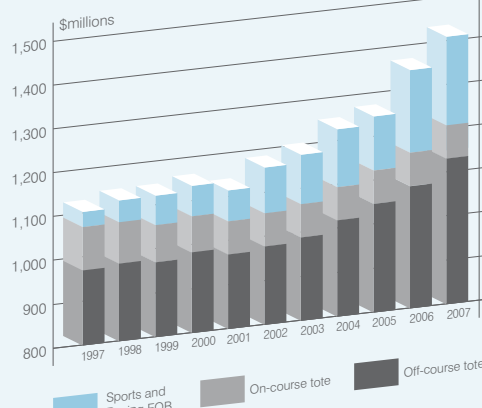
We have continued to deliver strong financial growth while committing significant investments in capital and operating expenditure for industry initiatives and growth programmes – all of which will enhance long-term prosperity.

In 2003 we forecast resurgence for the New Zealand racing industry and we have exceeded the projected outcomes through improved operating performance and taxation benefits.

Whilst there is still much to be done, as we build on three years of continued expansion, the highlights for the year under review have been considerable:

- Total turnover hits a record high of \$1.436 billion, an increase of 5.2% with growth across the three primary sectors of our domestic business; on-course, off-course and fixed odds racing.
- Domestic tote turnover reaches an eight year high of \$834 million, up 5.2% on the previous season, a result that can be largely attributed to the increased 2006/07 domestic racing calendar - 8969 races, up 4.9%.
- Overseas tote turnover increased 6.1% over the previous year, with the introduction of Thoroughbred racing from Western Australia adding a new wagering dimension for our customers.
- Win and place products enjoyed 8% growth in the third and fourth quarters following the lowering of take out rates in

Total Turnover - 10 years



November. Similarly, since lowering the quinella take out rate from 1 August 2007, we have seen a resurgence in customers placing quinella bets.

- Our fixed odds racing business continues to be a strong performer. Increased fixed odds racing options across all three racing Codes, coupled with greater customer demand for fixed odds racing product, led to a 25% increase in fixed odds racing turnover. Fixed odds racing revenues showed solid improvement off the back of consistent yield performance. The addition of another market (fixed odds and tote) on some races provided a stimulus for more interest and, therefore, turnover. Most races with fixed odds betting experienced an increase in totalisator turnover greater than those races without.
- We have seen strong growth in Multi bet sales which translated into revenue growth last season. Multi bets are now a key component of our fixed odds wagering business, especially fixed odds sports betting.
- Betting was available on a total of 24,780 races in the season, up 615 from the 2005/06 season. Looking ahead, the expanded New Zealand racing calendar and increased importation of overseas racing product will provide even greater wagering opportunities for customers in the 2007/08 season.

Chief Executive's Review



The commitment and engagement of NZ Racing Board staff and their ability to absorb considerable change has been pivotal in achieving this year's record result. Every individual within the business is to be applauded for their role in delivering this platform for growth.

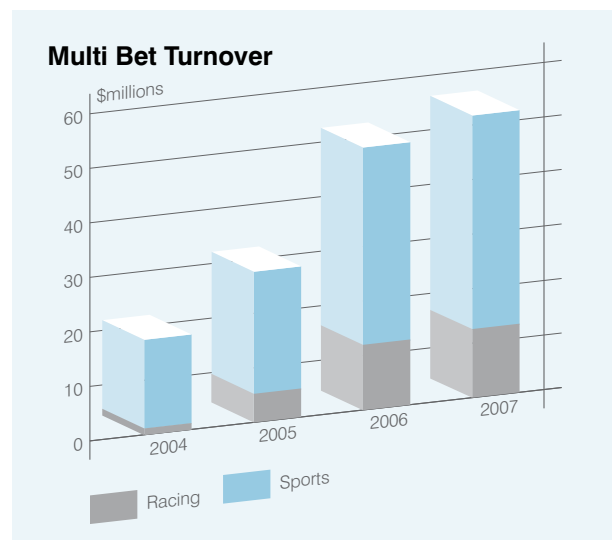
As we continue to deliver strong financial growth the cost of operating our business has increased by approximately \$9 million year on year. Almost half of this (\$4.3 million) is a result of the increased cost of sales, which is directly linked to increased turnover, and the related commissions incurred through importing overseas wagering product. Other operating expenses increased by \$4.9 million, approximately \$2.5 million of which was incurred through the costs of establishing our internationalisation agreements with Tabcorp, the Phonebet restructuring and the implementation of a new financial management and information system. The balance can be attributed to general increases across the board which is only 1.8% over the previous year. Or, put another way, this year operating expenses, excluding the items above, remained flat at 8.7% of turnover.

When the NZ Racing Board was established, distributions to the racing Codes were \$78 million. The foundation Board set a figure of \$100 million as its first three to five year target, but noted this level was sufficient for survival only, not growth. At least another \$30 million was deemed necessary to give the industry a sustainable future.

It was suggested that these targets might be achieved by improving the NZ Racing Board's performance (through product mix, channel growth and cost efficiencies), taxation reform and industry revitalisation (through increased participation together with venue and performance efficiencies).

Progress on the NZ Racing Board's performance and the net benefits of the re-alignment of tax duties has significantly exceeded expectations, and these improvements can be seen in each Code's growth in funding over the past five seasons. This has enabled a number of headline increases in stakes in the current season; for example, the New Zealand Metropolitan Trotting Club increased the stakes of the Christchurch Casino New Zealand Cup from \$600,000 to \$750,000 in November 2007. Similarly, New Zealand Thoroughbred Racing is to boost returns to owners by over \$2 million in the current season, through extending the payment of riders' fees from 1 February 2008, and Fillies, Mares and Stayers will benefit from an additional \$650,000 in winning stakes for key races. Net stakes for all three racing Codes have increased by 45% since 2003/04.

In simple terms, these improvements reinforce the point that there is value in growing the size of the pie, rather than each Code focusing on its individual share of the pie. This is the approach that we must take as a co-ordinated business marketing a portfolio of racing products.



Internationalisation opens up opportunities

One of the year's highlights was the conclusion of our negotiations with Australia's Tabcorp. In May, the New Zealand Racing Board signed an historic agreement with Tabcorp that has propelled the Board's internationalisation strategy into action.

The agreement covers:

- the commingling of the Australian SuperTAB and the New Zealand totalisator pools
- the expansion of the New Zealand and the Australian wagering schedules
- an International Marketing Agreement with Tabcorp-owned Sky Channel Australia.

The signing is a culmination of a great deal of work by many people in a variety of activities. It also signals a shared commitment by Tabcorp, the New Zealand Racing Board and the Thoroughbred, Harness and Greyhound Codes.

Congratulations to everyone involved for their determination and expertise in negotiating this starting point for the internationalisation of New Zealand racing.

This internationalisation of New Zealand's racing product will provide greater opportunities to take New Zealand racing to the world - securing future income generating opportunities for the New Zealand racing industry and significantly increasing our involvement in the global wagering market.

Commingled pools and the expansion of the New Zealand and Australian race programmes will provide increased wagering opportunities for customers on both sides of the Tasman. This will in turn enhance our ability to deliver incremental funding to all three racing Codes.

For wagerers, bigger pools are lowering price volatility and providing better opportunities to follow Kiwi horses, trainers, jockeys and drivers throughout their Australian campaigns. Although we are unable to gain a true measure of the immediate impact of commingling due to a plague of abandonments driven by poor weather conditions in Australia throughout June and July and the equine influenza crisis since August, other indicators suggest that the agreement has given customers renewed confidence. The final two weeks of the 2006/07 racing season were free of abandonments and betting on racing across those two weeks grew by 13% compared with the same period last year.



From Left to Right

Edward Rennell (General Manager, Harness Racing New Zealand)

Graeme Hansen (Chief Executive, New Zealand Racing Board)

Paul Bittar (Chief Executive, New Zealand Thoroughbred Racing)

Elmer Funke Kupper (Acting Chief Executive, Tabcorp)

Ross Gove (Racing Manager, Greyhound Racing New Zealand)

Tabcorp is taking Monday to Saturday broadcasts from New Zealand for the 2007/08 season. Racing in New Zealand is now a seven-day-a-week activity with the first New Zealand race meeting of the day starting just after midday, plugging the gap previously unfilled by Australian racing product from 10am Australian Eastern Standard Time.

Even more importantly, the related International Marketing Agreement with Sky Channel Australia means that we are now part of the global network of racing and wagering. Sky Channel Australia will act as the New Zealand Racing Board's international broadcast agent providing real opportunities to take New Zealand racing – and wagering on New Zealand racing – into Europe, North America and Asia.

Looking forward, the pooling of Tabcorp bets on New Zealand racing exported into Australia is expected by the end of this calendar year. We will then look to extend the global alliances to include new wagering products such as the Quaddie (Pick 4) and First Four.

Chief Executive's Review



Enhancing our distribution networks

Historically, we have applied a “one size fits all” approach to our network of TAB agencies and socials. As a result, we now suffer from the “tail wagging the dog” in the sense that the perception around our worst TAB outlets pervades across our whole network. Over the past year we have dedicated resource to addressing some of our customers' aesthetic concerns by differentiating the TAB brand experience between our agencies, socials and self service terminals. New look agencies in metropolitan centres with flush-mounted Sharp LCD monitors, clearly demarcated sports and race betting areas, touch screen information stations for sports options and internet browsing facilities are being well received by our inner city customers. However, the “tail” is long and our challenge for the year ahead will be to change public value and perception of our low cost wagering facilities.

We have worked hard on increasing the participation of casual customers, especially through our network of TAB agencies and socials, while also strengthening the product portfolio for our regular customers. Touch tone, Phonebet and internet wagering channels now service more than 100,000 TAB account holders generating more than 40% of the NZ Racing Board's \$1.436 billion annual turnover. The Board's relationship with our TAB account customers places us in a privileged position compared

to many other business-to-consumer operations. It is vital that we use the transactional data and customer information we have access to for a better understanding of our customers' wagering patterns. This, in turn, will increase our ability to tailor our products and services to satisfy customer demands.

With this in mind, the Board has invested in a new customer relationship management tool to enable us to better manage our customer relationships through improved measurement and analysis of marketing activity, and improved communications targeted to the individual customer. At the same time, it enhances our capacity to identify problem gamblers and fraudulent account activity.

Better access to, and use of, customer account information will play a major role in how the Board allocates future marketing spend, matching customer behaviour with products, services and offers.

In the past year we also completed a review of our operator assisted Phonebet channel to assess the best service model for our customers.

The introduction of the minimum \$5.00 bet for our Phonebet channel from 1 August 2006 drove a change in customer behaviour. This prompted a review of the future configuration of the operator assisted Phonebet channel. Following consultation with staff and unions, a decision was made to close the NZ Racing Board's Palmerston North Phonebet Centre in early May with the three centres in Auckland, Wellington and Christchurch continuing to provide operator assisted phone betting services for account customers.

Internet growth strong

Our online wagering channel, www.tab.co.nz, continues to be a strong performer, particularly among new customers reflecting the information age where consumers are more likely to complete their financial transactions through online banking and purchase holidays or consumer goods online. www.tab.co.nz is now placed among the top five sites in New Zealand and has experienced a 25% growth in the past year.

With an average of 240,000 browsers visiting the site each month we continue to add new features and we have improved customer access to account look-up information.

Significant technological investment

In October, the TAB retail network completed one of the most radical changes in its recent operating history, migrating terminal and operational technology to Telecom New Zealand's Internet Protocol network. This is a significant investment in our technical capability.

The new network provides a more robust system, installed and configured to meet each of the individual TAB outlets' technical requirements. As well as delivering substantial efficiency gains, and cost savings from reduced budgets and resources required for support and maintenance, the new Internet Protocol environment provides opportunities for the Board to extend its current remote self service betting technology by taking wagering to the public at major events through wireless, hand-held devices.

Cost transparency (FMIS) in place

This year our finance team completed the implementation phase of the Board's new financial management and information system. This is designed to strengthen financial processes and procedures across the business. The new system, known to end users as Technology One Financials, provides the Board with increased transparency and greater flexibility in financial reporting. The Board now has greater monitoring and control across all aspects of the New Zealand Racing Board's business operations. In time this is expected to deliver cost efficiencies as well as greater consistency to the way the Board communicates with the wider industry.

Broadcasting a potent marketing tool

With more than 950 race meetings per year, Trackside Television broadcasts the highest amount of home grown content in New Zealand and has become our most potent marketing tool. The Trackside Television production team broadcasts 363 days a year to give customers 12 hours of live racing every day.

Trackside's audience has continued to steadily increase since it first went to air 15 years ago. Better programming, which interests a broader audience, and enhanced on-screen graphical information have been key contributors to Trackside's success.

As we move through to the new racing season, superior on-course production presence will be aided by the delivery of six new outside broadcast vans. The new vans will operate on a digital platform and will house up to 14 cameras, vision and sound desks and recording equipment. The new 'plug and play' digital technology will significantly reduce the time needed to set up

on-course and will create operational efficiencies. This will add to our ability to provide quality audio vision on and off course.

Investing in infrastructure

With the re-alignment of tax duties coming into effect from 1 August 2006, the Board undertook to partition approximately \$8m of the first year's benefit to kick start an industry infrastructure investment programme. Following the preliminary work by a Board Taskforce, the Codes were asked to estimate the "size of the gorilla" in an attempt to measure how much was needed to bring the requisite racing infrastructure up to today's standards. This work has given an understanding of what spend is needed to correct many years of under investment across the network, and to understand how the industry should look, and how it needs to be positioned, in 5, 10 and 15 years time. As a direct result, the Board has approved loans for both the New Zealand Metropolitan Stables re-development and a new track surface for the Manawatu Greyhound Racing Club.

To enable us to move forward, it was essential that the Board gain a complete industry picture before agreeing to other individual proposals on a piece-meal basis. With this in mind, the Board considered an industry-wide consultation process for the area north of Taupo and developed a blueprint for Thoroughbred racing in the Auckland region. The Board will now work with the Thoroughbred Code and Auckland clubs to implement this new strategy whilst also establishing comparable blueprints for the Harness and Greyhound Codes in the Auckland region.



Given current and projected population densities, it is important that the Northern region is addressed first, before deciding on an approach for the Central and Southern regions.

The Board is also in the process of considering a proposal put forward by New Zealand Thoroughbred Racing to place significant investment in the development of four synthetic tracks. Synthetic tracks are already well established internationally. In New Zealand, it is anticipated that their introduction would significantly enhance the Thoroughbred Code's ability to train and race horses in winter months. This, in turn, would improve customer confidence and allow for increased starter numbers through reduced injuries to horses, fewer race meeting abandonments and less late scratchings.

Managing the impact of Equine Influenza

At the time of writing this report, the outbreak of the Equine Influenza virus in Australia has had a significant impact on turnover in New Zealand. The reduction in metropolitan racing from New South Wales and south-east Queensland, has seen betting turnover for the first few months of the new season fall well below budget. It is likely that the impact on New Zealand racing if the disease crossed the Tasman would be widespread through many local communities. The loss of racing in New Zealand for, say, three months could cost the industry more than \$300 million in turnover, and the repercussions on owners, trainers, drivers and riders through the loss of stake money would only be the beginning of the economic and social distress.

The key to preventing or controlling such outbreaks in New Zealand will always be individuals in contact with horses doing the right thing. However, our ability to deal with these situations is dependent on the industry having cohesive risk management and contingency plans in place. The crisis management group we are leading with other industry participants is, therefore, an important initiative for both the current Equine Influenza threat as well as longer term biosecurity risk preparedness.

Future expansion

The Board's Strategic Plan for 2008-10 focuses on the dual responsibility to generate revenue – principally through the wagering engine – and to provide overall industry governance and funding. Within those responsibilities key areas of priority have been set, as well as specific activities to be pursued within each of those priorities:

- As mentioned elsewhere, Internationalisation Phase Two is already work in progress.
- Fixed Odds Betting lends itself to being offered to a wider audience. The growth potential in sports betting - which is a burgeoning market internationally - has to be pursued in New Zealand.
- The need to compete in the global wagering market is a given.
- An opportunity for new revenue streams could accrue if we were able to conduct wagering on non-traditional activities outside racing or sport events.
- We know we have a lot of work to do in terms of our distribution and how we deliver our wagering activities to customers and – importantly – potential customers.

We have to continue to build – without distraction – on the progress to date. Even though significant improvement has been achieved, we cannot be complacent. Other gambling spend has stolen a march on race wagering so there is a huge relative market position we can strive to retrieve. This is now an opportunity, not a threat, as we work to substantially shift investor interest toward this industry.



Graeme Hansen | Chief Executive

Senior Executives

| | | | |
|-----------------|-------------------------|-------------------|----------------------------------|
| ➤ Graeme Hansen | Chief Executive Officer | ➤ Dave Elliott | Distribution (from 17 Sept 2007) |
| ➤ David Walsh | Chief Operating Officer | ➤ Glenn Myers | Acting Chief Information Officer |
| ➤ Bill Colgan | Racing & Wagering | ➤ Lynley Sinclair | Careers |
| ➤ Simon Bailey | Marketing | ➤ Glen Broomhall | Broadcasting |

Code Champions

Seachange | Thoroughbred Racing

Five year old Cambridge mare Seachange received the accolade for 2006/07 Mercedes Horse of the Year following a successful season with back to back wins in the 2006/07 Mudgway and Stoney Bridge Stakes as well as two Group 1 placings in Australia.

Seachange has started 22 times for 12 victories. Five of her wins have been at the Group 1 level, while she has run second 3 times in her career, all at the highest level.

Owner: Karreman Bloodstock Ltd

Trainer: Ralph Manning

Breeding: Cape Cross (IRE)/Just Cruising (AUS)

Breeder: Karreman Bloodstock Ltd



Flashing Red | Harness Racing

Named 2006/07 Harness Horse of the Year, Australian bred nine year old Flashing Red was also awarded accolades for the 5YO & Over Male Pacer of the Year and Pacer of the Year.

Out of 165 starts, Flashing Red has enjoyed 37 wins, including victories at the 2006 Christchurch Casino New Zealand Trotting Cup and the 2007 Trillian Trust Auckland Trotting Cup. Flashing Red has run second 30 times and third 25 times in her career.

Owners: Ravelyn Pty Ltd and Jenkscraft Pty Ltd

Trainers: Tim Butt and Phil Anderson

Breeding: Echelon (USA) out of Courvy Kazi

Breeder: JJ Campbell



Thrilling Moe | Greyhound Racing

Named 2006/07 Greyhound of the Year, New Zealand bred Thrilling Moe dominated the Restricted Age (Classic) ranks gaining victories at the NZ Breeders' Stakes and NZ Classic Futurity.

Thrilling Moe raced 21 times during the course of the season and picked up 14 wins and was placed on 6 occasions.

Owner: Gary Harding

Trainer: Karen Walsh

Breeding: Elite State (AUS)/Winsome Melody (AUS)

Breeder: Gary Harding





**\$17.5 MILLION
PAID TO NZ
SPORTING
BODIES
SINCE 1996**

Sports Wagering

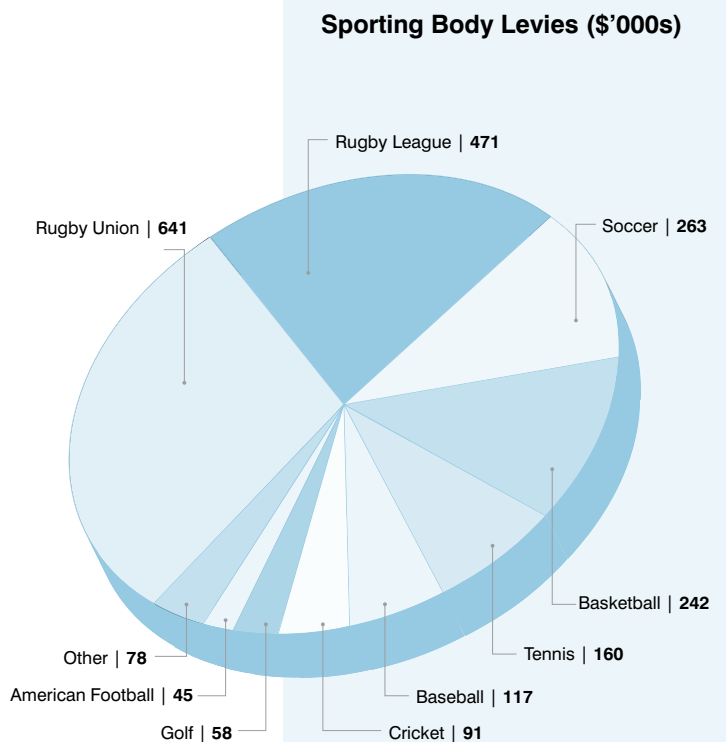
Total sports turnover for the year ended 31 July 2007 was \$131.5 million. This is our second strongest turnover year on record, only just edged out by the previous year's performance which included \$22 million in turnover generated from the 2006 Soccer World Cup.

Through these sports betting activities, the New Zealand Racing Board stimulates funding for 29 New Zealand sports bodies. In total more than \$2 million will be distributed from wagering during 2006/07. This brings the total levies paid to sports bodies since the inception of sports betting to just over \$17.5 million.

The year has seen the emergence of sports such as Tennis and Basketball exceeding expectations by delivering turnover growth of 30%. The growth of these and a number of other historically fringe sports is signalling a reduction in our reliance on New Zealand's traditional winter sports, while providing the added benefit of a more complete sports betting calendar.

For a long time, Rugby and Rugby League dominated a patchy sporting calendar that lacked product volume and consistency. Over the last few years we have seen the emergence of Soccer, more specifically the English Premier League, but we still lacked depth of regular tournaments outside of these three sports. A long season of American Basketball (NBA) and the heavy professional Tennis schedule (both ATP and WTA tournaments) are now filling these holes and attracting a more youthful and technology savvy customer to the TAB.

The increased diversification of broadcasting of international sporting events into New Zealand has been one catalyst for the turnover growth experienced across fringe sports. Like racing, the correlation between sports betting and vision of the event is





Colin Meads buys the first Sports bet ever sold, at the Courtney Place TAB, from agent Richard Newman on 24 June 1996

extremely strong. This bodes well for the growth of betting across a wide range of sports as New Zealand now has five dedicated sports television channels that provide the breadth to bring a wide selection of sports to the New Zealand public.

In contrast to the abundance of sport on television there is still room for more quality sports commentary shows across the radio networks. In conjunction with Radioworks the NZ Racing Board has developed BSPORT – a dedicated sports commentary format to play through the Radio Tracksides network. Beginning in October, BSPORT features both breakfast and late morning shows combining the talents of former international sportspeople and long established television and radio broadcasters and commentators. Just like the strategy behind an intense test match, BSPORT radio will bring listeners and sports purists the stories behind the game as well as up to the minute results and the latest market information.

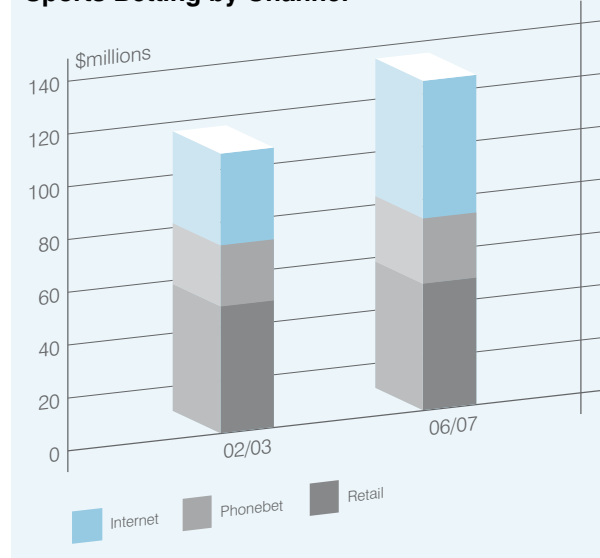
There were more than 8.4 million sports bets sold this season with the large majority being on Multi bet tickets - highlighting how popular and successful this product has become. Sports Multi turnover has now grown 70% in two years.

Multi bet revenues now represent over half of all fixed odds sports revenue, a considerable increase when compared to last season as customers continue to see the value in this long odds product. Many of our customers' Multi bets yielded outstanding returns during the season. For example, one customer spent \$5 on the Rebel Sports Super 14 to win \$37,125 and another spent \$20 to win \$24,124.

Customers are increasingly using the internet to place their sports bets, with internet sports turnover reaching an all time high. Five years ago the internet only had a marginal share of sports turnover. Internet sports betting turnover will continue to grow off the back of the ongoing Broadband rollout and faster internet access for New Zealanders.

A major driver of internet sports betting turnover is the attraction of the more youthful customer to our sports betting product. In the 2006/07 year TAB account holders placing sports bets had an

Sports Betting by Channel



Major racing
carnivals contribute
more than
\$30 million to
local economies



On-course

After a period of long-term decline, the New Zealand racing industry is experiencing a renaissance in on-course attendance. In the past year on-course turnover has increased by \$3.1 million when compared to the previous year, giving a clear indication that the enhanced industry focus on delivering entertaining events around race meetings - and increased focus on better meeting the needs of race goers - is finally paying off.

Economic Impact Reports commissioned by the New Zealand Racing Board throughout the 2006/07 racing season confirm the importance of the major carnivals to the racing industry, as well as their contribution to regional economies as a source of tourism and event spending. More than \$30 million was accrued from major carnivals including Christchurch's New Zealand Cup Week, Auckland's New Zealand Herald Christmas Carnival and Wellington's Century City Developments Cup Carnival.

To enhance the entertainment value at these carnivals and at 40 other major racing events across the country, the NZ Racing Board subsidised the use of big screens and fully funded the on-course presentation. This investment has proved very popular in bringing the race action to the customer and has significantly enhanced their raceday experience. As a result, the Board has agreed to subsidise big screens for the next three seasons at up to 63 events across the country per annum.

As mentioned elsewhere in this report, the NZ Racing Board's focus on attracting new customers to racing has led to the development of nationally branded events, run as a franchise with clubs. The NZ Racing Board-led Destination Summer Holiday Racing programme enjoyed a second successful season with 27 race clubs throughout New Zealand hosting events, stimulating 31% growth in new customers attending racing events.

For the season ahead, the Board is launching a new franchise 'Christmas at the Races' which targets the raceday hospitality market for pre-Christmas parties. Other national brands are set to follow, as they can deliver significant economies of scale in the execution of marketing and promotional activity as well as providing increased revenue generating opportunities for clubs.



Underlying this development is an extensive on-going programme of on-course customer research. In the past year, the NZ Racing Board commissioned IER, an Australian based research specialist, to conduct more than 8,000 customer surveys at 54 events across the country. The findings of the research have given the Board detailed insight into the needs and wants of racegoers, and have provided a valuable resource in the continuous improvement of the raceday experience for the clubs, Codes and Racing Board alike.

Earlier this year the Board commissioned research to identify the demand for raceday packages. As a result of the findings the Board is now working with the clubs to develop a series of smaller social packages to be enjoyed with friends and family, and corporate packages for Premier, Cup and Carnival race days. This research has also led to the NZ Racing Board's investment in a number of small marquees. The Board will manage the use of marquees in partnership with the clubs over the key summer period.

Current projects include the development of a website to promote racing events. This will include e-commerce functionality so that customers can book and pay for packages and race meeting tickets on-line, supported by the TAB Customer Service centre. Initially, the website will support the national franchise branded meetings, but it is envisaged that this will be extended to other racing events further down the track.

The Board has engaged AC Nielsen's Panorama Survey to measure the impact of these programmes over time.

Responsible Gambling

The New Zealand Racing Board, under the Racing Act 2003 and associated Regulations, is required to report on programmes relating to problem gambling, to provide information and advice on problem gambling and to provide problem gambling training.

Problem Gambling Levy Consultation for Period 2007-2010

The NZ Racing Board participated in the consultation process, led by the Ministry of Health, to determine what our problem gambling levy would be for the next three years. In October, we presented our submission to the Gambling Commission and our recommendations given during consultation were taken on board.

It was proposed that the NZ Racing Board's problem gambling levy would increase to 0.62 per cent from 0.57 per cent. We argued that our levy should be retained at the current level and were pleased to see that the levy rates that apply to the NZ Racing Board from 1 July 2007 through until 30 June 2010 were confirmed as decreasing from 0.57 per cent to 0.55 per cent.

Territorial Authority Gaming Policy Review Consultation

Territorial Authorities have been required under the Gambling Act 2003 to review their Class 4 Gambling Venue Policies.

As each policy came up for review, the NZ Racing Board proactively presented submissions to each Territorial Authority. The consultation process provided opportunities to demonstrate our position as a responsible gambling provider. A number of Territorial Authorities have re-considered their policies in light of this information.

Focus on Harm Prevention

Since the establishment of the NZ Racing Board in 2003, the Board has taken a pro active stance in meeting its responsibilities for harm prevention and minimisation. Initiatives in this area have included continued training in problem gambling awareness for those responsible for supervising betting across the industry. During the past financial year, 95 training workshops have been held with 1258 participants attending.

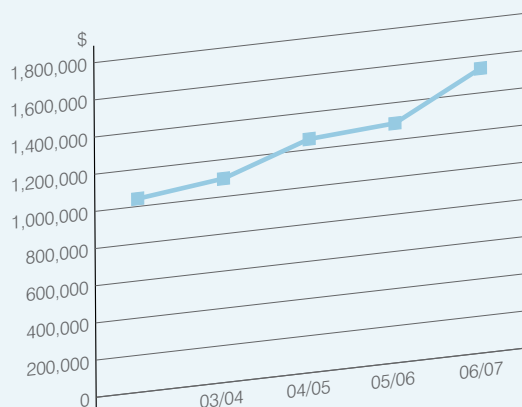
Staff Process for Intervention

The Harm Prevention and Minimisation policy approved by the Board in 2005 was reviewed during the past year.

We have taken measures during the year to ensure compliance with the regulations and ensure that TAB outlets are up to the required standards of our policies with respect to providing training and following appropriate compliance procedures.



Investment in Responsible Gambling Measures



During the year, the investment in responsible gambling measures by the NZ Racing Board was \$1.53 million. Of this, approximately \$1.41 million was paid to the Crown to recover the costs of the Ministry of Health's problem gambling management services.

The NZ Racing Board is committed to the Ministry of Health's strategies and programmes in this area and this is illustrated by our representation and participation in the Expert Advisory Group established jointly by the Department of Internal Affairs and Ministry of Health. This is an important opportunity to contribute along with other industry providers and parties to the discussion on key issues within our sector from a harm prevention and minimisation perspective. The NZ Racing Board also maintains strong relationships with government officials as well as working alongside problem gambling support agencies to better understand customers' needs.

Approximately \$120,000 was predominantly invested in the provision of training on harm minimisation and prevention to staff in customer roles within the NZ Racing Board and the wider racing industry to ensure a leadership position is taken with this key responsibility.

The NZ Racing Board has also embarked upon a precautionary approach with respect to the development of new products and services. This involves analysing the design of products from a harm prevention and minimisation perspective.

One such intervention where this approach was applied was in the planning and analysis with the introduction of an increase to the Minimum Bet value through the Phonebet channel introduced on 1 August 2006.

Interventions with customers during the financial year have included up to 24 requests for self exclusion from Board venues. All requests for exclusion were actioned by closing of the customer's TAB account and the implementing of a process so that the customer could not open further accounts. TAB retail outlets in the areas that the customer frequented were also notified of the exclusion from service. Many requests for assistance or advice on problem gambling have been received and advice on how to obtain support for the problem was given to the customer along with details of the exclusion process.



Governance

This Governance Statement sets out the authority, responsibilities, membership and operation of the New Zealand Racing Board.

Board Structure and Composition

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

- An independent Chairperson;
- Three members appointed on the nomination of each racing Code – one by each of New Zealand Thoroughbred Racing Inc, Harness Racing New Zealand Inc and the New Zealand Greyhound Racing Association (Inc);
- Three persons recommended by a nomination advisory panel consisting of the Minister, the Board Chairperson and the Chairpersons of the three racing Codes.

Board Members are appointed for terms not exceeding three years.

Board Responsibilities

The Board is responsible for the overall direction and control of the NZ Racing Board's activities, and its key responsibilities are:

- Establishing goals and strategies with associated business plans;
- Monitoring performance against budget and other performance indicators;
- Ensuring integrity and transparency in reporting;
- Communicating with the racing Codes on a regular basis through CRIG (Combined Racing Industry Group) meetings, annual Statements of Intent, Annual Reports and other relevant reporting;
- Implementing policies to enhance the NZ Racing Board's performance;
- Identifying and managing business risks, including statutory compliance;
- Ensuring appropriate internal controls and the quality and independence of the external audit function;
- Monitoring management and its performance, including Chief Executive appointment, review, development, succession planning and delegations;

- Fostering an organisational culture that requires Board Members, management and every staff member to adhere to high standards of ethics and corporate behaviour.

The Board delegates certain responsibilities to the Chief Executive and to committees of the Board.

In accordance with section 19 of the Racing Act 2003, the Board submits a Statement of Intent for the coming financial year, setting out the NZ Racing Board's overall objectives, intentions and financial and performance targets. After due consultation with recognised industry organisations the finalised Statement of Intent is presented to the House of Representatives.

Board Processes

The Board met 10 times during the year to 31 July 2007. Policies are in place to ensure meetings are subject to formal agendas and reporting procedures. Meeting agendas are prepared by the Chief Executive in conjunction with the Chairperson, with papers circulated in advance of the meetings.

The NZ Racing Board maintains an Interests Register in which the interests of its members are recorded. Members are expected to manage any conflicts of interest responsibly and to act ethically and in a manner consistent with the values of the NZ Racing Board and its objectives. These objectives, as set out in section 8 of the Racing Act 2003, are:

- To promote the racing industry;
- To facilitate and promote race betting and sports betting;
- To maximise its profits for the long-term benefit of New Zealand racing.

Board Committees

The Board has formally constituted three Board committees – the Dates Committee, the Audit and Finance Committee and the Compensation and Development Committee. These committees support the Board by considering relevant issues at a suitably detailed level and reporting back to the Board.

All committees have written Charters setting out their roles and responsibilities, membership, functions, reporting procedures and the manner in which they are to operate.

Matters considered by the committees are reported back to the Board as recommendations, except where specific decision-making authority has been delegated by the Board. The structure and membership of each committee is reviewed annually.

Dates Committee

The Dates Committee is established in accordance with section 42 of the Racing Act 2003, which requires the committee to determine, following consultation with each of the recognised industry organisations:

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

The committee consists of Julie Crengle (Chairperson), Alistair Sutherland, Thayne Green, Michael Stiassny (from January 2007) and Ray O'Connor (from January 2007). Jim Wakefield was a member of the Committee until his resignation from the Board in December 2006.

Audit and Finance Committee

The Audit and Finance Committee assists the Board in discharging its responsibilities with respect to financial reporting and the financial risk management practices of the NZ Racing Board, the work and performance of the internal audit function and the NZ Racing Board's external auditor, Deloitte.

The committee consists of Warren Bell (Chairperson), Julie Crengle, Ray O'Connor (commencing January 2007) and Michael Stiassny (commencing January 2007). Alistair Sutherland was a member of the Committee up until May 2007.

Compensation and Development Committee

The Compensation and Development Committee's purpose is to monitor issues and determine policies and practices related to the remuneration and review of the Chief Executive and the Senior Executive Committee, as well as overseeing management development and succession planning processes.

The committee consists of Thayne Green (Chairperson since January 2007), Michael Stiassny (since January 2007) and

Alistair Sutherland (since January 2007). Alan Jackson was Chairperson and Warren Larsen a member of the Committee until December 2006.

Integrity Committee

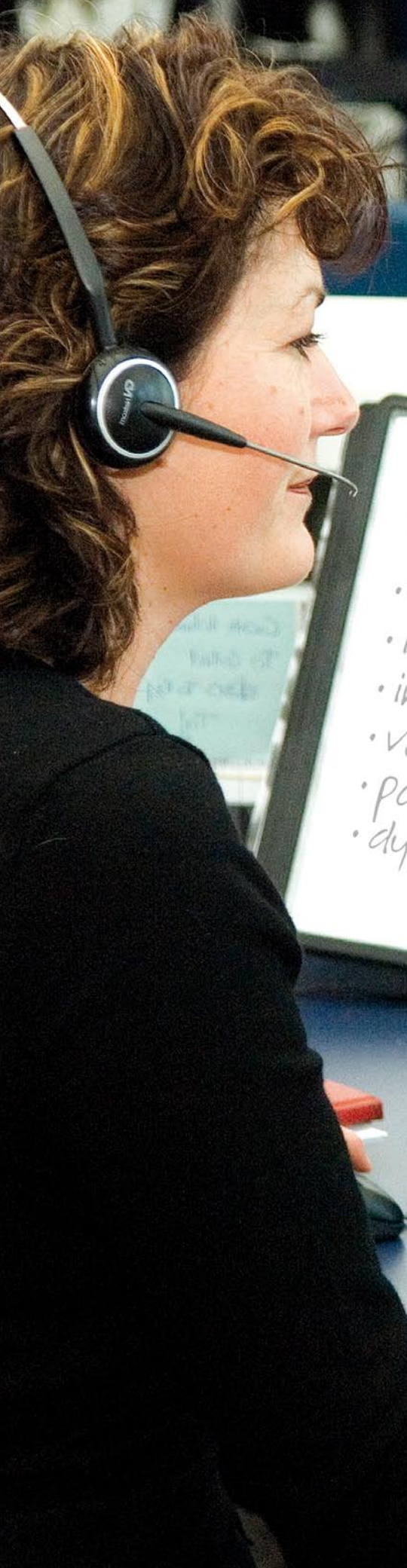
The Integrity Committee was formed to provide leadership and oversight of initiatives to ensure exemplary standards of integrity for the racing industry, and for the NZ Racing Board's wagering-related operations.

During the year the Committee disbanded to enable the Board to engage directly with the industry on integrity matters. It was decided that in the interests of establishing and maintaining best practice the integrity function would be best served under the umbrella of the NZ Racing Board's management team, reporting to the full Board for discussion and decision. This includes establishing and maintaining best practice for all facets of the NZ Racing Board's operations, including bookmaking, harm minimisation and prevention, as well as risk management practices.

Infrastructure Taskforce

The Board previously had an Infrastructure Taskforce that was disbanded in February 2007. It was agreed that the full Board should participate in infrastructure investment decisions.

Responsibility for ensuring infrastructure planning and funding is addressed in the context of driving improved returns to participants and supporting the industry's future wellbeing is now assumed by the NZ Racing Board's management team, reporting to the full Board for discussion and decision.



Our Values

- teamwork
- integrity
- innovation
- valuing people
- passion
- dynamism



Our People

Our operations are diverse and reflect the complexity and magnitude of our organisation and its reliance on technology and performance. With this comes a responsibility to ensure our people have a safe and supportive working environment where their passion for racing and sport is fuelled by our commitment to lead New Zealand racing to deliver greater success and excitement.

Employee Survey

Understanding our employee culture is instrumental to the New Zealand Racing Board's success. In 2006, we undertook an employee culture survey to gain a greater understanding of how our employees view our performance and to enable us to build on our strengths and identify key areas for improvement.

Over the past year the senior executive team has put a number of initiatives in place to address some of the common themes highlighted in the survey including improved communication processes and celebrating our achievements.

Graduate Development Programme

We have identified the need to bring new skills into our workplace through the introduction of a graduate recruitment and development programme. In June 2006, we approached university graduates throughout New Zealand to apply for a place on the programme and received an overwhelming response to our recruitment drive. Following a rigorous assessment process three graduates were invited to join the business in January 2007 and have since engaged in an intensive two year development programme which involves a six month rotation with business units supported by mentoring and coaching from members of the senior executive team.

We are very pleased with the progress our graduates have made and look forward to welcoming a new intake of graduates in January 2008.

Development of Staff

Developing our talent pool has also been a major focus of the NZ Racing Board this year. We have placed considerable effort on identifying the core skills and attributes that these people need to have to become future leaders. Individual training and development plans are being created for these people.

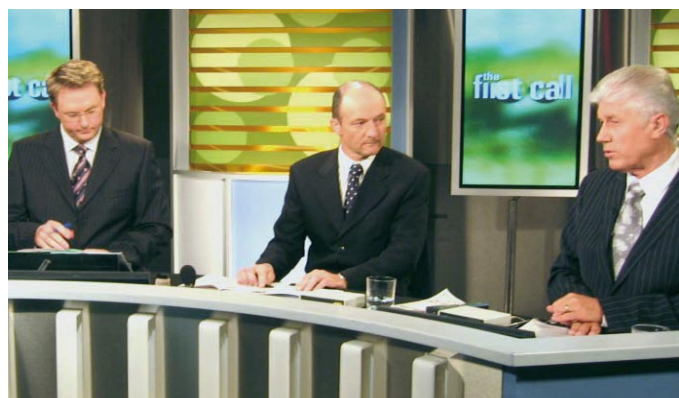
We have also provided our Phonebet operators with the opportunity to achieve the National Certificate in Contact Centre Operations in recognition of the skills and knowledge that many of these dedicated staff demonstrate in their work with customers.

Health and Safety

During the year we were audited by ACC to assess our standards and continued status within the Workplace Safety Management Practices Programme which enables the business to receive a 15% discount on ACC levies paid. We passed this audit and are pleased to note that we are the only employer in the racing industry to achieve such standards.

We also undertook a market review of our confidential Employee Assistance Programme and have since established a relationship with a new service provider to support staff in dealing with outside problems impacting their ability to cope with work.

We continue to provide annual flu vaccinations and have encouraged employees to take an active role in looking after their health and wellbeing through the various health and safety action groups established in each regional office.



Employees

The NZ Racing Board employed the following staff:

| | As at 31/07/07 | As at 31/07/06 |
|--|-------------------|-------------------|
| Salaried full time employees | 244 | 219 |
| Phonebet operators (rostered shift work) | 258 | 378 |
| Hourly rate staff - part time | 134 | 180 |
| - casual | 28 | 63 |

A number of individuals employed by the NZ Racing Board received over \$100,000 in total remuneration including “at risk” components, as explained below. For the full year ending 31 July, the salary bands and number of employees within each band were as follows:

| | 2007 | 2006 |
|-------------------------------|-----------|-----------|
| Total Remuneration (\$'000's) | | |
| 100-110 | 10 | 9 |
| 110-120 | 2 | 4 |
| 120-130 | 3 | 3 |
| 130-140 | 5 | 1 |
| 140-150 | 3 | 1 |
| 160-170 | 1 | - |
| 170-180 | 1 | 3 |
| 180-190 | 2 | - |
| 200-250 | 3 | 2 |
| 250-300 | 1 | 1 |
| 300-350 | 1 | - |
| 500-550 | 1 | 1 |
| | 33 | 25 |

The remuneration of some employees includes an “at risk” component, the payment of which is dependent upon attainment of specific performance targets. The Compensation and Development Committee of the Board oversees (1) the level of remuneration, including any “at risk” component, for senior management, (2) the annual establishment of performance targets and measures related to the “at risk” component of senior management remuneration, (3) annual assessment of senior management performance against targets and measures, (4) recommendations to the full Board on the amounts of “at risk” components payable (if any) to individual senior management.

Such payments, although made after 31 July, are included in the total remuneration figures above.

Readers should note that a number of staff in these bands were employed part way through the financial year. Therefore future reporting will have changes in banding as full year remuneration is recognised.

Board

| | Total Members Remuneration (\$'s) | Meetings attended | | | | Integrity Committee |
|---|---|-------------------|------------------------------|--------------------|--|------------------------|
| | | Board Meetings | Audit & Finance Committee | Dates Committee | Compensation & Development Committee | |
| Michael Stiassny <i>(Appointed 1 January 2007)</i> | 33,542 | 5* | 3 | 2 | 1 | - |
| Warren Bell | 35,000 | 10 | 5* | - | - | - |
| Julie Crengle | 40,000 | 9 | 4 | 4* | - | - |
| Alistair Sutherland <i>(Audit & Finance Committee Member until May 2007)</i> | 39,125 | 9 | 2 | 4 | 1 | 3 |
| Ray O'Connor <i>(Appointed 1 December 2006)</i> | 24,333 | 6 | 3 | 3 | - | - |
| Thayne Green | 40,875 | 10 | - | 4 | 4* | 3 |
| Alan Jackson <i>(Until 31 December 2006)</i> | 16,458 | 5 | - | - | 2 | 3 |
| Jim Wakefield <i>(Until 30 November 2006)</i> | 14,000 | 4 | - | 1 | - | 3* |
| Warren Larsen <i>(Until 31 December 2006)</i> | 21,677 | 4 | - | - | 3 | - |
| | 265,010 | 10 | 5 | 4 | 4 | 3 |

An asterix denotes chairperson of the committee.



**\$45 million increase in
annual operating earnings
since 2003/04**

Financial Statements Contents

| | |
|------------------------------------|----|
| Statement of Financial Performance | 36 |
| Statement of Movements in Equity | 37 |
| Statement of Financial Position | 38 |
| Statement of Cash Flows | 39 |
| Statement of Accounting Policies | 40 |
| Notes to the Financial Statements | 42 |
| Audit Report | 53 |

Statement of Financial Performance

FOR THE YEAR ENDED 31 JULY 2007

| | Notes | 2007 Actual \$'000s | 2007 Budget \$'000s | 2006 Actual \$'000s |
|---|----------|------------------------|------------------------|------------------------|
| REVENUE | | | | |
| Betting Turnover (including GST) | 1 | 1,435,558 | 1,371,310 | 1,364,492 |
| Net Dividends (including GST) | | (1,166,406) | (1,116,547) | (1,106,179) |
| Betting Deductions (including GST) | 2 | (41,239) | (39,040) | (74,284) |
| Net Betting Revenue (excluding GST) | 3 | 227,913 | 215,723 | 184,029 |
| Other Income | 3 | 15,205 | 13,414 | 14,948 |
| Operating Revenue | 3 | 243,118 | 229,137 | 198,977 |
| OPERATING EXPENDITURE | | | | |
| Operating Expenses | 4 | 128,304 | 119,776 | 119,069 |
| OTHER INCOME | | | | |
| Interest Income | 3 | 6,907 | 5,580 | 5,835 |
| NET RETURN FROM NEW ZEALAND RACING BOARD | | | | |
| OPERATIONS | | 121,721 | 114,941 | 85,743 |
| INDUSTRY EXPENDITURE | | | | |
| Industry Operating Expenses | 20 | 23,340 | 22,881 | 18,986 |
| Industry Revitalisation Expenses | 21 | 3,237 | 4,374 | 2,462 |
| NET SURPLUS | | 95,144 | 87,686 | 64,295 |

ANALYSIS OF NEW ZEALAND RACING BOARD INDUSTRY CONTRIBUTIONS & RETENTIONS

The New Zealand Racing Board provides funding to the Industry through operational earnings and utilisation of reserves. The New Zealand Racing Board initially expenses all industry revitalisation costs and reimburses the Operating Result by transferring a like amount from reserves.

| | Notes | 2007 Actual \$'000s | 2007 Budget \$'000s | 2006 Actual \$'000s |
|---|-------|------------------------|------------------------|------------------------|
| FROM OPERATIONS | | | | |
| Code Proportional Share | | 89,346 | 79,794 | 66,437 |
| Industry Operating Expenses | 20 | 23,340 | 22,881 | 18,986 |
| Amounts Retained for Future Industry Benefit | | 9,035 | 12,266 | 320 |
| | | 121,721 | 114,941 | 85,743 |
| FROM RESERVES | | | | |
| *Industry Revitalisation Contribution from Reserves | 21 | 3,237 | 4,374 | 2,462 |
| | | 3,237 | 4,374 | 2,462 |
| TOTAL INDUSTRY CONTRIBUTION & RETENTIONS | | 124,958 | 119,315 | 88,205 |

*The Industry Revitalisation Reserve expenditure refers to targeted New Zealand Racing Board initiatives to improve industry performance. To date, these include support of the Destination Summer Holiday Racing programme, Thoroughbred maiden starter incentives, Sponsorship incentives, Greyhound Semen Bank and the provision of Big Screens on-course.

Statement of Movements in Equity

FOR THE YEAR ENDED 31 JULY 2007

| | Notes | 2007 Actual \$'000s | 2007 Budget \$'000s | 2006 Actual \$'000s |
|--|-------|------------------------|------------------------|------------------------|
| Reserves at Beginning of Year | | 99,522 | 99,522 | 101,664 |
| Total Recognised Income and Expense (Net Surplus for the Year) | | 95,144 | 87,686 | 64,295 |
| Distribution from Reserves for Industry Revitalisation | | 3,237 | 4,374 | 2,462 |
| Net Surplus Available for Distribution | | 98,381 | 92,060 | 66,757 |
| Interim Distributions to Codes | | (79,346) | (79,794) | (61,694) |
| | | 19,035 | 12,266 | 5,063 |
| Final Distribution Payable to Codes | | (10,000) | - | (4,743) |
| Transfer to Reserves | | 9,035 | 12,266 | 320 |
| Distribution from Reserves | 21 | (3,237) | (4,374) | (2,462) |
| Reserves at End of Year | | 105,320 | 107,414 | 99,522 |

The accompanying Accounting Policies and Notes form part of these Financial Statements

Statement of Financial Position

AS AT 31 JULY 2007

| | Notes | 2007 Actual \$'000s | 2007 Budget \$'000s | 2006 Actual \$'000s |
|---|--------|------------------------|------------------------|------------------------|
| EQUITY | | | | |
| Reserves | 21 | 105,320 | 107,414 | 99,522 |
| Total Equity | | 105,320 | 107,414 | 99,522 |
| <i>Represented By:</i> | | | | |
| CURRENT ASSETS | | | | |
| Cash and Short Term Investments | 6, 22 | 94,296 | 74,885 | 80,189 |
| Inventory | | 258 | 183 | 183 |
| Receivables and Prepayments | 7 | 3,623 | 4,464 | 3,651 |
| | | 98,177 | 79,532 | 84,023 |
| CURRENT LIABILITIES | | | | |
| Payables | 8 | 31,588 | 21,746 | 24,561 |
| Account Betting Deposits and Vouchers | 6 | 12,583 | 12,500 | 12,157 |
| Unpaid Dividends and Jackpot Retentions | 9 | 5,817 | 5,176 | 5,364 |
| | | 49,988 | 39,422 | 42,082 |
| WORKING CAPITAL | | 48,189 | 40,110 | 41,941 |
| NON CURRENT ASSETS | | | | |
| Loans and Advances to Clubs | 10 | 1,562 | 1,618 | 1,749 |
| Long Term Investments | 6 | 5,011 | 5,011 | 5,011 |
| Property, Plant and Equipment | 12, 22 | 47,555 | 58,835 | 47,209 |
| Broadcasting Licences and Intangibles | 11 | 4,346 | 3,056 | 5,526 |
| | | 58,474 | 68,520 | 59,495 |
| NON CURRENT LIABILITIES | 14 | 1,343 | 1,216 | 1,914 |
| NET ASSETS | | 105,320 | 107,414 | 99,522 |

The Members of the New Zealand Racing Board authorise these Financial Statements for issue on 11 September 2007.



Michael Stiassny
Chairman of the New Zealand Racing Board



Warren Bell
Chairman of the Audit and Finance Committee of the
New Zealand Racing Board

Statement of Cash Flows

FOR THE YEAR ENDED 31 JULY 2007

| | Notes | 2007 Actual \$'000s | 2007 Budget \$'000s | 2006 Actual \$'000s |
|---|-----------|------------------------|------------------------|------------------------|
| OPERATING ACTIVITIES | | | | |
| <i>INFLOWS</i> | | | | |
| Betting Turnover | | 1,435,494 | 1,371,310 | 1,364,718 |
| Racing Services Income | | 5,763 | 5,952 | 4,606 |
| Current Dividends and Deposits | | 879 | - | 1,073 |
| Interest Received | | 7,065 | 5,580 | 5,927 |
| Other Income | | 7,436 | 6,124 | 7,786 |
| | | 1,456,637 | 1,388,966 | 1,384,110 |
| <i>OUTFLOWS</i> | | | | |
| Betting Duty Paid | | 10,307 | 9,317 | 44,277 |
| Dividends Paid | | 1,167,115 | 1,117,987 | 1,106,926 |
| Payments to Suppliers | | 85,701 | 83,661 | 77,439 |
| Industry Expenses | | 23,340 | 22,881 | 18,986 |
| Industry Distributions | | 85,752 | 80,119 | 67,259 |
| Sporting Bodies' Levies | | 2,162 | 2,088 | 2,334 |
| Payment to Employees | | 28,935 | 28,610 | 26,390 |
| Goods and Services Tax on Betting Activity | | 28,271 | 27,735 | 26,886 |
| | | 1,431,583 | 1,372,398 | 1,370,497 |
| Net Cash from Operating Activities | 16 | 25,054 | 16,568 | 13,613 |
| INVESTING ACTIVITIES | | | | |
| <i>INFLOWS</i> | | | | |
| Disposal of Property, Plant and Equipment | | 106 | - | 185 |
| Repayments of Club Loans | | 272 | 150 | 252 |
| Repayments of Long Term Investments | | - | - | 17,666 |
| | | 378 | 150 | 18,103 |
| <i>OUTFLOWS</i> | | | | |
| Purchase of Property, Plant and Equipment | 22 | 11,325 | 22,022 | 9,197 |
| Purchase of Long Term Investments | | - | - | 7,995 |
| | | 11,325 | 22,022 | 17,192 |
| Net Cash from Investing Activities | | (10,947) | (21,872) | 911 |
| Net Increase/(Decrease) in Cash Held | | 14,107 | (5,304) | 14,524 |
| Cash at the beginning of the year | | 80,189 | 80,189 | 65,665 |
| Cash at the end of the year | | 94,296 | 74,885 | 80,189 |
| Represented By: | | | | |
| Cash and Short Term Investments | 6 | 94,296 | 74,885 | 80,189 |
| Closing Cash | 22 | 94,296 | 74,885 | 80,189 |

The accompanying Accounting Policies and Notes form part of these Financial Statements

Statement of Accounting Policies

FOR THE YEAR ENDED 31 JULY 2007

ENTITY REPORTING

The financial statements report on the operations of the New Zealand Racing Board. The Racing Act 2003 requires disclosure of budgeted amounts approved by the Board.

STATUTORY BASE

The New Zealand Racing Board is a statutory body established pursuant to the Racing Act 2003. Financial Statements are prepared in accordance with the Racing Act 2003.

GOING CONCERN

The Members of the Board have adopted the going concern basis for preparation of the financial statements.

MEASUREMENT BASE

The financial statements have been prepared on the historical cost basis, modified for the revaluation of land and buildings. The reporting currency is the New Zealand Dollar.

ACCOUNTING POLICIES

These 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 and Net Dividends

Descriptions of specific terms stated in the Statement of Financial Performance are as follows:

Betting Turnover - refers to all turnover generated from betting.

Racing Services Income - refers to income the New Zealand Racing Board derives from providing on-course raceday services to racing clubs.

Net Dividends - refers to Dividends Paid and Payable to customers less Fractions and Unclaimed Dividends.

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

Goods and Services Tax (GST)

The Statement of Financial Performance and Statement of Cash Flows are prepared on a GST exclusive basis except for Betting Turnover and Dividends Paid to Customers. 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 Trade Receivables and Payables, which include GST as invoiced.

Property, Plant & Equipment and Depreciation

Except for land and buildings, Property, Plant & Equipment are stated at cost less accumulated depreciation, unless a diminution in value below cost occurs, in which case Property, Plant & Equipment are valued at the lower value. Land and Buildings have been revalued by registered valuers.

Depreciation is calculated on a straight-line basis to allocate the cost of assets over their estimated useful lives. These rates are reviewed annually by the New Zealand Racing Board. The current annual depreciation rates are as follows:

| | |
|---------------------------------------|---------------|
| Buildings at Valuation | 1.0% - 2.5% |
| Leasehold Improvements | 10.0% - 15.0% |
| Furniture, Office Equipment and Plant | 10.0% - 20.0% |
| Motor Vehicles | 20.0% - 33.0% |
| Operations and Trackside Equipment | 10.0% |
| Computer Equipment and Software | 15.0% - 50.0% |

Financial Instruments

Financial Instruments are carried on the Statement of Financial Position at fair value, with the exception of long term investments, club loans and non-current liabilities.

Statement of Accounting Policies

FOR THE YEAR ENDED 31 JULY 2007

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, and dividend income is recognised when declared.

Inventories

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

Broadcast Licences and Intangible Assets

The New Zealand Racing Board acquired intangible assets relating to radio frequency broadcasting licences when it took over Radio Trakside operations from Carwest NZ Radio Holdings Ltd.

Broadcasting Licences are recognised at cost and are amortised on a straight line basis over the remaining term of the licence period (equivalent to 5.0% and 17.0% per annum). When the carrying amount of an intangible asset exceeds its recoverable amount, it is written down to its recoverable amount.

Jackpot Retentions

These accounts are established in accordance with the Racing Rules pursuant to section 52 of the Racing Act 2003. Transfers to these accounts comprise amounts set aside from the dividend pools of Pick6, Six Pack and 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 New Zealand Racing Board is exempt from income tax pursuant to section CW40(1)(a) of the Income Tax Act 2004.

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.

In some cases the New Zealand Racing Board may enter into foreign currency forward contracts. The purpose of these instruments is to reduce the 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.

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, long term government stock and corporate bonds are excluded.

Netting

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

Leased Assets

Leases in which the New Zealand Racing Board substantially assumes the risks and rewards of ownership are classified as a finance lease and are capitalised. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value or the present value of the minimum lease payments.

Other leases are operating leases and are not recognised on the New Zealand Racing Board's balance sheet.

COMPARATIVE FIGURES

Certain comparative information has been reclassified, where necessary, to achieve consistency in disclosure with the current year, none of which are considered to be material.

CHANGES IN ACCOUNTING POLICIES

There have been no changes in accounting policies during the year.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 JULY 2007

NOTE 1 BETTING TURNOVER (INCLUDING GST)

| | 2007 Actual \$'000s | 2007 Budget \$'000s | 2006 Actual \$'000s |
|--|------------------------|------------------------|------------------------|
| Off-course Racing - Totalisator (Tote) | 1,157,912 | 1,117,192 | 1,096,690 |
| Off-course Racing - Fixed Odds Betting (FOB) | 67,714 | 61,050 | 54,361 |
| On-course Racing | 78,427 | 77,958 | 75,352 |
| Total Racing Turnover | 1,304,053 | 1,256,200 | 1,226,403 |
| Sports - Totalisator (Tote) | 2,098 | 2,450 | 2,030 |
| Sports - Fixed Odds Betting (FOB) | 129,407 | 112,660 | 136,059 |
| Total Sports Betting | 131,505 | 115,110 | 138,089 |
| Total Betting Turnover | 1,435,558 | 1,371,310 | 1,364,492 |

NOTE 2 BETTING DEDUCTIONS (INCLUDING GST)

| | 2007 Actual \$'000s | 2007 Budget \$'000s | 2006 Actual \$'000s |
|---------------------------------|------------------------|------------------------|------------------------|
| Betting Duty | 10,345 | 9,742 | 44,277 |
| Goods and Services Tax | 28,732 | 27,315 | 27,673 |
| Sporting Bodies' Levies | 2,162 | 1,983 | 2,334 |
| Total Betting Deductions | 41,239 | 39,040 | 74,284 |

NOTE 3 TOTAL OPERATING REVENUE

| | 2007 Actual \$'000s | 2007 Budget \$'000s | 2006 Actual \$'000s |
|--------------------------------|------------------------|------------------------|------------------------|
| Net Betting Revenue | 227,913 | 215,723 | 184,029 |
| Racing Services Income | 5,764 | 5,683 | 5,558 |
| International Racing | 4,132 | 3,271 | 3,783 |
| Net Gain on Disposal of Assets | 20 | - | 103 |
| Other Income | 5,289 | 4,460 | 5,504 |
| Total Other Income | 15,205 | 13,414 | 14,948 |
| Operating Revenue | 243,118 | 229,137 | 198,977 |
| Interest Income | 6,907 | 5,580 | 5,835 |
| Total Operating Revenue | 250,025 | 234,717 | 204,812 |

Notes to the Financial Statements

FOR THE YEAR ENDED 31 JULY 2007

NOTE 4 OPERATING EXPENSES

| | Notes | 2007 Actual \$'000s | 2007 Budget \$'000s | 2006 Actual \$'000s |
|--|-------|------------------------|------------------------|------------------------|
| Amortisation of Intangible Assets | 11 | 1,180 | 1,180 | 1,132 |
| Auditor's Remuneration | 5 | 189 | 90 | 167 |
| Bad Debts Written Off | | - | - | 34 |
| Board Members' Remuneration and Expenses | | 265 | 300 | 302 |
| Depreciation | 12 | 12,210 | 11,820 | 11,843 |
| Foreign Exchange Losses/(Gains) | | 65 | (66) | (84) |
| Insurance | | 876 | 826 | 837 |
| Net Movement in Provision for Doubtful Debts | | (44) | - | 21 |
| Other Operating Expenses | | 36,309 | 31,825 | 32,788 |
| Overseas Racing Rights | | 12,804 | 11,677 | 12,130 |
| Problem Gambling Levy and Expenses | | 1,531 | 1,335 | 1,289 |
| Property and Equipment Leases | | 3,917 | 3,831 | 3,568 |
| Retail and Internet Fees | | 25,979 | 26,123 | 23,388 |
| Staff Costs | | 33,023 | 30,835 | 31,654 |
| Total Operating Expenses | | 128,304 | 119,776 | 119,069 |

NOTE 5 AUDITOR'S REMUNERATION

| | 2007 Actual \$'000s | 2007 Budget \$'000s | 2006 Actual \$'000s |
|---|------------------------|------------------------|------------------------|
| Auditing Services | 99 | 90 | 83 |
| Other Assurance Services | 112 | - | 107 |
| Less amounts Capitalised or in Work in Progress | (22) | - | (23) |
| Auditor's Remuneration | 189 | 90 | 167 |

NOTE 6 CASH AND INVESTMENTS

| | 2007 Actual \$'000s | 2007 Budget \$'000s | 2006 Actual \$'000s |
|---|------------------------|------------------------|------------------------|
| Foreign Currency Bank Accounts | 197 | 200 | 197 |
| Foreign Currency Betting Accounts | 245 | 250 | 312 |
| NZ Dollar Bank Accounts and Call Deposits | 44,422 | 27,055 | 32,300 |
| Short Term Investments | 49,432 | 47,380 | 47,380 |
| Cash and Short Term Investments | 94,296 | 74,885 | 80,189 |
| Corporate Bonds | 5,011 | 5,011 | 5,011 |
| Long Term Investments | 5,011 | 5,011 | 5,011 |
| Total Cash and Investments | 99,307 | 79,896 | 85,200 |

Effective interest rates at 31 July 2007 range between 2.25% and 8.49%.

\$14,000,000 is held in Trust to cover the amounts owing to customers for Account Deposits and Unpresented Betting Vouchers (2006: \$13,000,000). The actual liability of these items as at 31 July 2007 was \$12,583,059. (2006: \$12,157,186)

Notes to the Financial Statements

FOR THE YEAR ENDED 31 JULY 2007

NOTE 7 RECEIVABLES AND PREPAYMENTS

| | Notes | 2007 Actual \$'000s | 2007 Budget \$'000s | 2006 Actual \$'000s |
|--|-------|------------------------|------------------------|------------------------|
| Current Portion of Advances to Clubs | 10 | 187 | 187 | 272 |
| Prepayments | | 555 | 600 | 567 |
| Settlement Receivables | | 1,260 | 1,350 | 1,244 |
| Sundry Receivables | | 1,150 | 1,577 | 1,058 |
| Trade Receivables | | 471 | 750 | 510 |
| Total Receivables and Prepayments | | 3,623 | 4,464 | 3,651 |

NOTE 8 PAYABLES

| | 2007 Actual \$'000s | 2007 Budget \$'000s | 2006 Actual \$'000s |
|---------------------------|------------------------|------------------------|------------------------|
| Code Liability | 12,879 | 6,048 | 6,048 |
| Taxes Payable | 1,807 | 1,267 | 1,958 |
| Trade Payables & Accruals | 14,113 | 12,041 | 14,165 |
| Employee Entitlements | 2,789 | 2,390 | 2,390 |
| Total Payables | 31,588 | 21,746 | 24,561 |

\$8.5m of the Code liability balance at 31 July 2007 relates to final distributions which are conditional on New Zealand Racing Board approval of the application of the funds by the Code bodies. Subsequent to balance date the New Zealand Racing Board has approved the use of the funds by the Code bodies.

NOTE 9 UNPAID DIVIDENDS AND JACKPOT RETENTIONS

| | 2007 Actual \$'000s | 2006 Actual \$'000s |
|--|------------------------|------------------------|
| Current Unpaid Dividends | 2,957 | 3,287 |
| Jackpot Retentions | | |
| Balance at Beginning of Year | 2,077 | 2,362 |
| Amounts Retained from Dividend Pool | 2,572 | 1,697 |
| Amounts Released to Dividends | (1,789) | (1,982) |
| Balance at End of Year | 2,860 | 2,077 |
| Total Unpaid Dividends and Jackpot Retentions | 5,817 | 5,364 |

NOTE 10 LOANS AND ADVANCES TO CLUBS

| | 2007 Actual \$'000s | 2006 Actual \$'000s |
|--|------------------------|------------------------|
| Avondale JC | 1,572 | 1,722 |
| Canterbury JC | - | 35 |
| Race Inc | - | 20 |
| Racing Southland | - | 30 |
| Wanganui GRC | 177 | 214 |
| Total Loans and Advances to Clubs | 1,749 | 2,021 |
| Current Portion | 187 | 272 |
| Non Current Portion | 1,562 | 1,749 |
| | 1,749 | 2,021 |

Interest rates on these loans range from 0% to 4% (2006: 0% to 5%). The New Zealand Racing Board is satisfied as to the ultimate collectability of these loans.

In July 2007 the Board approved additional loans of up to \$5.7m to the NZ Metropolitan Trotting Club and up to \$660,000 to the Manawatu Greyhound Racing Club. As at 31 July 2007 the contracts were not signed and the loans had not been drawn down.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 JULY 2007

NOTE 11 BROADCASTING LICENCES AND INTANGIBLES

| | Note | 2007 Actual \$'000s | 2006 Actual \$'000s |
|---|------|------------------------|------------------------|
| Broadcasting Licences | | | |
| Opening Net Book Value | | 5,526 | 5,282 |
| plus Reclassifications from Property, Plant and Equipment | | - | 1,376 |
| Current Period Amortisation | 4 | (1,180) | (1,132) |
| Total Intangible Assets | | 4,346 | 5,526 |

NOTE 12 PROPERTY, PLANT & EQUIPMENT

| | Cost / Valuations \$'000s | Accumulated Depreciation \$'000s | Actual 2007 Book Value \$'000s | Current Year Depreciation \$'000s |
|--|---------------------------------|--|--------------------------------------|---|
| Buildings | 19,943 | 9,686 | 10,257 | 908 |
| Land | 2,590 | - | 2,590 | - |
| | 22,533 | 9,686 | 12,847 | 908 |
| Computer Equipment and Software | 77,636 | 57,151 | 20,485 | 8,576 |
| Furniture, Office Equipment and Plant | 6,712 | 4,761 | 1,951 | 664 |
| Leasehold Improvements | 4,014 | 1,508 | 2,506 | 481 |
| Motor Vehicles | 3,641 | 2,898 | 743 | 573 |
| Operations and Trackside Equipment | 13,631 | 10,055 | 3,576 | 1,008 |
| Work In Progress | 5,447 | - | 5,447 | - |
| Total Property, Plant & Equipment * | 133,614 | 86,059 | 47,555 | 12,210 |

* As part of the implementation of a new financial system the New Zealand Racing Board removed a number of fully depreciated historical assets from its records with no impact on the book value of the Property, Plant & Equipment.

| | Cost / Valuations \$'000s | Accumulated Depreciation \$'000s | Actual 2006 Book Value \$'000s | Current Year Depreciation \$'000s |
|--|---------------------------------|--|--------------------------------------|---|
| Buildings | 22,258 | 11,667 | 10,591 | 1,130 |
| Land | 2,591 | - | 2,591 | - |
| | 24,849 | 11,667 | 13,182 | 1,130 |
| Computer Equipment and Software | 76,371 | 56,051 | 20,320 | 8,106 |
| Furniture, Office Equipment and Plant | 7,687 | 6,066 | 1,621 | 673 |
| Leasehold Improvements | 3,453 | 998 | 2,455 | 459 |
| Motor Vehicles | 3,695 | 2,968 | 727 | 557 |
| Operations and Trackside Equipment | 17,658 | 13,834 | 3,824 | 918 |
| Work In Progress | 5,080 | - | 5,080 | - |
| Total Property, Plant & Equipment | 138,793 | 91,584 | 47,209 | 11,843 |

Notes to the Financial Statements

FOR THE YEAR ENDED 31 JULY 2007

NOTE 13 COMMITMENTS

| | 2007 Actual \$'000s | 2006 Actual \$'000s |
|---|------------------------|------------------------|
| Capital Commitments | | |
| Contracts entered into for capital expenditure within the next 12 months which have not been provided for in the Statement of Financial Position. | 8,485 | 876 |

The majority of the capital commitments at 31 July 2007 relate to the purchase of outside broadcast vehicles for which a contract has been signed and is subject to future milestone payments.

Operating Lease Commitments

The New Zealand Racing Board has the following commitments under Operating Leases as at 31 July 2007:

| | | |
|--|--------------|--------------|
| Current | 3,492 | 3,271 |
| One to Two Years | 2,788 | 2,423 |
| Two to Five Years | 3,258 | 3,039 |
| Over Five Years | 264 | 450 |
| Total Operating Lease Commitments | 9,802 | 9,183 |

Finance Lease Commitments

The New Zealand Racing Board has the following commitments under Finance Leases as at 31 July 2007:

| | | |
|--|------------|----------|
| Current | 68 | - |
| One to Two Years | 113 | - |
| Two to Five Years | 38 | - |
| Total Finance Lease Commitments | 219 | - |

NOTE 14 NON CURRENT LIABILITIES

| | 2007 Actual \$000's | 2006 Actual \$000's |
|---|------------------------|------------------------|
| Repayable after one year and before two years | 760 | 700 |
| Repayable thereafter | 583 | 1,214 |
| Total Non Current Liabilities | 1,343 | 1,914 |

The majority of the non current liabilities relates to the deferred settlement on the purchase of the Radio Trackside Network from Canwest NZ Radio Holdings Ltd. The current portion of this liability (\$699,999) is reflected in Trade Payables (2006: \$1,166,667).

Notes to the Financial Statements

FOR THE YEAR ENDED 31 JULY 2007

NOTE 15 FINANCIAL INSTRUMENTS

The New Zealand Racing Board is subject to a number of financial risks which arise as a result of its investment activities. To manage and limit the effects of those financial risks, the Members of the Board have approved policy guidelines and authorised the use of various financial instruments. The policies approved, and the financial instruments being utilised at balance date are outlined below.

Credit Risk

The New Zealand Racing Board incurs credit risk from transactions with trade receivables and financial institutions in the ordinary course of business. There is no significant concentration of credit risk. The New Zealand Racing Board's policy is to hold investments with institutions that have a Standard & Poor's short term credit rating of not less than A1+. Long Term investments require a Standard & Poor's long term credit rating of not less than AA-. 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.

Liquidity Risk

The New Zealand Racing Board holds betting deposits and has exposure to issued unredeemed betting vouchers. This factor, along with the proposed timing of capital expenditure in the new financial year, requires the Board to hold a significant amount of its investment portfolio on a short term maturity basis.

Currency Risk

The New Zealand Racing Board enters into foreign currency forward exchange contracts to manage exposure to fluctuations in foreign currency exchange rates on major items of expenditure. Total forward cover under forward exchange contracts at balance date was \$nil (2006: \$nil).

The New Zealand Racing Board also holds foreign currency bank accounts and foreign currency denominated accounts with overseas betting agencies. Total foreign currency contained in Cash and Short Term Investments at balance date was:

| | 2007 Actual \$'000s | 2006 Actual \$'000s |
|-----------------------|------------------------|------------------------|
| Australian Dollars | 375 | 357 |
| Pounds Sterling | 9 | 10 |
| United States Dollars | 58 | 142 |
| | 442 | 509 |

| FINANCIAL INSTRUMENTS | 2007 Carrying Value \$'000s | 2007 Fair Value \$'000s | 2006 Carrying Value \$'000s | 2006 Fair Value \$'000s |
|---|-----------------------------------|-------------------------------|-----------------------------------|-------------------------------|
| Current Assets | | | | |
| Cash and Short Term Investments | 94,296 | 94,296 | 80,189 | 80,189 |
| Receivables and Prepayments | 3,623 | 3,623 | 3,651 | 3,651 |
| Current Liabilities | | | | |
| Payables | 31,588 | 31,588 | 24,561 | 24,561 |
| Account Betting Deposits and Vouchers | 12,583 | 12,583 | 12,157 | 12,157 |
| Unpaid Dividends and Jackpot Retentions | 5,817 | 5,817 | 5,364 | 5,364 |
| Long Term Assets and Liabilities | | | | |
| Loans and Advances to Clubs (non current portion) | 1,562 | 1,430 | 1,749 | 1,521 |
| Long Term Investments | 5,011 | 4,996 | 5,011 | 5,094 |
| Non Current Liabilities | 1,343 | 1,198 | 1,914 | 1,678 |

Notes to the Financial Statements

FOR THE YEAR ENDED 31 JULY 2007

NOTE 15 FINANCIAL INSTRUMENTS - CONTINUED

MATURITY PROFILE

| | Interest Rate per annum | Current \$'000s | Actual 2007 | | |
|---|----------------------------|--------------------|-----------------------------|------------------------------|----------------------------|
| | | | One to Two Years \$'000s | Two to Five Years \$'000s | Over Five Years \$'000s |
| Cash and Short Term Investments | 2.25% to 8.49% | 94,296 | - | - | - |
| Receivables and Prepayments | | 3,436 | - | - | - |
| Payables | | 31,588 | - | - | - |
| Account Betting Deposits and Vouchers | | 12,583 | - | - | - |
| Unpaid Dividends and Jackpot Retentions | | 5,817 | - | - | - |
| Loans and Advances to Clubs | 0.00% to 4.00% | 187 | 187 | 553 | 822 |
| Long Term Investments | 6.64% to 8.31% | - | 4,015 | 996 | - |
| Non Current Liabilities | | - | 760 | 583 | - |

| | Interest Rate per annum | Current \$'000s | Actual 2006 | | |
|---|----------------------------|--------------------|-----------------------------|------------------------------|----------------------------|
| | | | One to Two Years \$'000s | Two to Five Years \$'000s | Over Five Years \$'000s |
| Cash and Short Term Investments | 2.25% to 7.52% | 80,189 | - | - | - |
| Receivables and Prepayments | | 3,379 | - | - | - |
| Payables | | 24,561 | - | - | - |
| Account Betting Deposits and Vouchers | | 12,157 | - | - | - |
| Unpaid Dividends and Jackpot Retentions | | 5,364 | - | - | - |
| Loans and Advances to Clubs | 0.00% to 5.00% | 272 | 187 | 561 | 1,001 |
| Long Term Investments | 6.64% to 7.92% | - | - | 5,011 | - |
| Non Current Liabilities | | - | 700 | 1,214 | - |

Notes to the Financial Statements

FOR THE YEAR ENDED 31 JULY 2007

NOTE 16 STATEMENT OF CASH FLOWS

Reconciliation of Net Surplus to Net Cash Flows from Operating Activities

| | 2007 Actual \$'000s | 2007 Budget \$'000s | 2006 Actual \$'000s |
|--|------------------------|------------------------|------------------------|
| NET SURPLUS | 95,144 | 87,686 | 64,295 |
| <i>Impact of Non Cash Items:</i> | | | |
| Amortisation of Intangible Assets | 1,180 | 1,180 | 1,132 |
| Amortisation of Investment Premiums | - | - | (186) |
| Bad Debts Written Off | - | - | 34 |
| Depreciation | 12,210 | 11,820 | 11,843 |
| Foreign Exchange (Gains)/Losses | 65 | (66) | (84) |
| Net Movement in Provision for Doubtful Debts | (44) | - | 21 |
| <i>Impact of Movements in Working Capital:</i> | | | |
| Account Betting Deposits and Vouchers | 426 | 343 | 1,101 |
| Final Distributions to Codes | (10,000) | - | (4,743) |
| Interim Distributions to Codes | (79,346) | (79,794) | (61,694) |
| Payables | 7,027 | (2,815) | 1,626 |
| Receivables and Prepayments | 28 | (813) | 1,922 |
| Inventory | (75) | - | (22) |
| Unpaid Dividends and Jackpot Retentions | 453 | (188) | (29) |
| <i>Impact of Items Classified as Financing & Investing Activities:</i> | | | |
| Current Portion of Loans and Advances to Clubs | (85) | (85) | 20 |
| Current Portion of Non Current Liabilities included in Payables | (700) | (700) | (1,166) |
| Property, Plant and Equipment Purchases in Accruals | (1,209) | - | (354) |
| Net Gain on Disposal of Assets | (20) | - | (103) |
| Net Cash from Operating Activities | 25,054 | 16,568 | 13,613 |

Notes to the Financial Statements

FOR THE YEAR ENDED 31 JULY 2007

NOTE 17 RELATED PARTY TRANSACTIONS

A number of Members of the New Zealand Racing Board have interests in organisations which have commercial transactions with the New Zealand Racing Board. These are recorded in an Interests Register maintained by the Board.

Alistair Sutherland is a Director of NZ Thoroughbred Racing and the Auckland Racing Club.

Julie Crengle is a Partner in Crengle, Shreves & Ratner, law firm.

Michael Stiassny (appointed 1 January 2007) is a Partner in KordaMentha (formally Ferrier Hodgson & Co) and a Director of Vector Limited.

Ray O'Connor (appointed 1 December 2006) is the Treasurer of Harness Racing New Zealand, Chairman of Cambridge Raceway Ltd and on the Executive of the New Zealand Sires Stakes Board and the Cambridge Te Awamutu Harness Club. Ray is also secretary of the Waipa Workingmen's Club which holds a TAB licence.

Warren Bell is a Director of Selwyn District Council business units and Timaru District Council Holdings Limited.

Alan Jackson (until 31 December 2006) is a Director of The Boston Consulting Group.

Jim Wakefield (until 30 November 2006) is an executive member of Harness Racing New Zealand.

Warren Larsen (until 31 December 2006) is a Director of Air New Zealand and is Chairman of the Massey University Foundation.

The New Zealand Racing Board in the normal course of business has or may have transactions with all these organisations, which are made on a normal commercial basis.

The following distributions have been made to the Codes and clubs (inclusive of the Industry Operating Expenses as outlined in Note 20):

| | 2007 Distribution Actual \$'000s | 2007 Code Liability Actual \$'000s | 2006 Distribution Actual \$'000s | 2006 Code Liability Actual \$'000s |
|--|--|--|--|--|
| New Zealand Thoroughbred Racing and clubs | 62,904 | 6,116 | 48,971 | 2,850 |
| Harness Racing New Zealand and clubs | 35,574 | 4,135 | 26,768 | 1,892 |
| New Zealand Greyhound Racing Association and clubs | 13,778 | 2,628 | 9,411 | 1,306 |
| Non Code Specific | 430 | 0 | 273 | 0 |
| | 112,686 | 12,879 | 85,423 | 6,048 |

These distributions equate to the total of the Code Proportional Share (\$89.346m) and Industry Operating Expenses (\$23.340m) as outlined in the analysis of New Zealand Racing Board Contributions & Retentions.

NOTE 18 CONTINGENT LIABILITIES

The Members of the New Zealand Racing Board are not aware of any condition or situation as at balance date that would require the disclosure of a material contingent liability. (2006: Nil)

NOTE 19 SEGMENTAL REPORTING

The New Zealand Racing Board's objectives are to promote the racing industry in New Zealand, to facilitate and promote racing betting and sports betting and to maximise its profits for the long-term benefit of New Zealand racing. Domestic racing and racing industry development programmes are co-ordinated through the three racing Code bodies (New Zealand Thoroughbred Racing, Harness Racing New Zealand and the New Zealand Greyhound Racing Association) and other recognised industry organisations.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 JULY 2007

NOTE 20 INDUSTRY OPERATING EXPENSES

| | 2007 Actual \$'000s | 2007 Budget \$'000s | 2006 Actual \$'000s |
|--|------------------------|------------------------|------------------------|
| Final Field FOB Racing Levies | 2,512 | 2,398 | 2,146 |
| Industry Interest Paid* | 397 | 361 | 201 |
| Local Club Payments - International Racing | 3,587 | 3,105 | 3,054 |
| On-course Commission Payments to Clubs | 12,549 | 12,473 | 9,800 |
| Other Industry Expenses | 179 | 86 | 142 |
| Racing Laboratory | 768 | 1,000 | - |
| Owners/Breeders Incentives | - | - | 480 |
| Premier Marketing Subsidies | 2,239 | 2,238 | 2,218 |
| Racing Services Rebates | 139 | 137 | 149 |
| Research, Training and Education | 316 | 500 | 192 |
| Stakes Support to Codes | 654 | 583 | 604 |
| Total Industry Operating Expenses | 23,340 | 22,881 | 18,986 |

* The New Zealand Racing Board agreed to pay or charge interest on outstanding funding balances owed to or by the racing Codes (Code Liability in note 17) on a monthly basis from 1 August 2004. Interest is charged at a rate equivalent to the average call deposit rate achieved by the Board on its deposit investments during the month.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 JULY 2007

NOTE 21 RESERVES

| | 2007 Actual \$'000s | 2006 Actual \$'000s |
|--|------------------------|------------------------|
| General Reserve | | |
| Balance at beginning of the year | 92,254 | 91,934 |
| Plus | | |
| Transfers to Reserves | 9,035 | 320 |
| Balance at the end of the year | 101,289 | 92,254 |
| Industry Revitalisation Reserve | | |
| Balance at beginning of the year | 7,268 | 9,730 |
| Less | | |
| Revitalisation Expenditure * | (3,237) | (2,462) |
| Balance at the end of the year | 4,031 | 7,268 |
| Total Reserves | 105,320 | 99,522 |

* Of the \$4.0m of the Industry Initiatives Reserve remaining at 31 July 2007, \$1.8m has been allocated to specifically identified initiatives.

NOTE 22 ASSET AND CASH BUDGET COMPARATIVES

Actual cash balances are higher than budget due to the deferral of a number of capital projects. This has had a corresponding impact on the Property, Plant and Equipment balances against budget.

NOTE 23 ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

On 24th November 2004 the Accounting Standards Review Board approved the stable platform of New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS). All reporting entities must comply with NZ IFRS for reporting periods beginning on or after 1 January 2007.

The New Zealand Racing Board will adopt NZ IFRS for the period commencing 1 August 2007. Accordingly the first set of NZ IFRS financial statements will be those for the year ending 31 July 2008, together with comparatives for the year ending 31 July 2007. Adoption of NZ IFRS may result in changes to accounting policies that may have significant impacts on the reported financial position and financial performance of the entity.

At the date of this report, the New Zealand Racing Board is working towards having implementation completed prior to 31 July 2008. The Board is confident it will be able to achieve its plan for NZ IFRS implementation by 31 July 2008. An estimate of the impacts of adoption is not yet known.

The New Zealand Racing Board is required to adopt NZ IFRS no later than the year ending 31 July 2008.

TO THE MEMBERS OF THE NEW ZEALAND RACING BOARD

We have audited the financial statements on pages 36 to 52. The financial statements provide information about the past financial performance of the New Zealand Racing Board and its financial position as at 31 July 2007. This information is stated in accordance with the accounting policies set out on pages 40 to 41.

BOARD MEMBERS' RESPONSIBILITIES

The Board Members are responsible for the preparation, in accordance with New Zealand law and generally accepted accounting practice, of financial statements which fairly reflect the financial position of the New Zealand Racing Board as at 31 July 2007 and the results of its operations and cash flows for the year ended on that date.

AUDITOR'S RESPONSIBILITIES

It is our responsibility to express to you an independent opinion on the financial statements presented by the Board Members.

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:

- the significant estimates and judgements made by the Board Members in the preparation of the financial statements, and
- whether the accounting policies are appropriate to the New Zealand Racing Board's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain 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.

Other than in our capacity as auditor and the provision of other assurance services, we have no relationship with or interests in the New Zealand Racing Board.

UNQUALIFIED OPINION

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

In our opinion the financial statements on pages 36 to 52 fairly reflect the financial position of the New Zealand Racing Board as at 31 July 2007 and the results of its operations and cash flows for the year ended on that date.

Our audit was completed on 11 September 2007 and our unqualified opinion is expressed as at that date.



Chartered Accountants

Wellington, New Zealand

This audit report relates to the financial statements of the New Zealand Racing Board for the year ended 31 July 2007 included on the New Zealand Racing Board's website. The Board members are responsible for the maintenance and integrity of the New Zealand Racing Board's website. We have not been engaged to report on the integrity of the New Zealand Racing Board's website. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and related audit report dated 11 September 2007 to confirm the information included in the audited financial statements presented on this website. Legislation in New Zealand governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



Directory

Solicitors

Minter Ellison Rudd Watts
Wellington

Auditor

Deloitte
Wellington

Bank

Bank of New Zealand
Wellington

National Office

106-110 Jackson Street
Petone
PO Box 38899
Wellington Mail Centre
Phone: +64 4 576 6999
Fax: +64 4 576 6942

Northern Region

6 Mitchelson Street
Ellerslie
Private Bag 17902
Greenlane
Auckland
Phone: +64 9 520 8200
Fax: +64 9 520 8201

Waikato/Bay of Plenty Region

391 Te Rapa Road
PO Box 10501
Te Rapa
Hamilton
Phone: +64 7 838 8800
Fax: +64 7 838 8801

Central Region

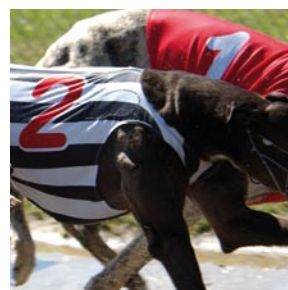
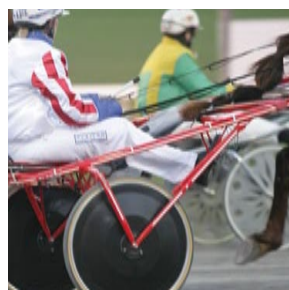
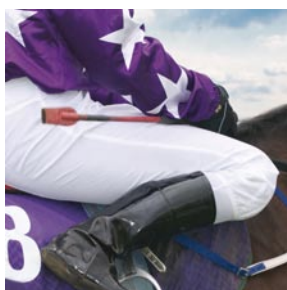
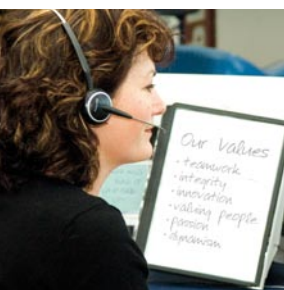
690 Tremaine Avenue
PO Box 637
Palmerston North
Phone: +64 6 357 2054
Fax: +64 6 357 2845

Canterbury/West Coast/ Marlborough Region

Moule Street
Addington
Private Bag 4746
Christchurch
Phone: +64 3 338 1420
Fax: +64 3 338 1424

Otago/Southland Region

30 Teviot Street
PO Box 600
Dunedin
Phone: +64 3 455 9710
Fax: +64 3 455 9715



Helpdesk 0800 102 106
Phonebet Freephone 0800 10 20 30
Touch Tone - Freephone 0800 10 20 33
Touch Tone - Telecom Mobile * 40 50 63
Touch Tone Vodafone / Telecom prepaid 04 472 7888

www.tab.co.nz