



ANNUAL REPORT 2012

NEW ZEALAND
RACING BOARD



CONTENTS

4	FINANCIAL HIGHLIGHTS
6	ABOUT US
7	DISTRIBUTION
8	CHAIRMAN'S REPORT
10	CHIEF EXECUTIVE'S REPORT
12	GOVERNANCE STATEMENT
16	BOARD MEMBERS
18	RACING INDUSTRY INITIATIVES
20	RUGBY WORLD CUP
22	ON-COURSE FRANCHISE EVENTS
24	RETAIL
26	RACING AND SPORTS BETTING
28	BROADCASTING
29	TECHNOLOGY AND DIGITAL
30	SPORTING PARTNERSHIPS
31	CODE CHAMPIONS
32	RESPONSIBLE GAMBLING
34	FINANCIAL STATEMENTS
36	INCOME STATEMENT
37	STATEMENT OF COMPREHENSIVE INCOME
37	STATEMENT OF CHANGES IN EQUITY
38	STATEMENT OF FINANCIAL POSITION
39	STATEMENT OF CASH FLOWS
40	STATEMENT OF ACCOUNTING POLICIES
44	NOTES TO THE FINANCIAL STATEMENTS
72	AUDIT REPORT
74	LEADERSHIP TEAM
74	DIRECTORY

FINANCIAL HIGHLIGHTS

	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Betting turnover	1,273	1,364	1,436	1,528	1,513	1,583	1,533	1,622
Net dividends	1,026	1,106	1,166	1,255	1,244	1,304	1,261	1,336
Surplus before industry Expenditure & Distributions	82	83	118	127	115	127	124	127
Distribution from betting operation	83	88	116	132	141	125	128	133
Net proceeds from NZRB Class 4 gaming	-	-	-	-	-	-	-	6
Total funding	83	88	116	132	141	125	128	139

Races per year	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
Greyhound	3,194	3,288	3,621	3,955	4,149	4,271	4,879	5,024
Harness	2,299	2,409	2,485	2,743	2,822	2,767	2,715	2,675
Thoroughbred	2,807	2,855	2,863	2,970	3,088	3,068	3,052	3,061
Total domestic	8,300	8,552	8,969	9,668	10,059	10,106	10,646	10,760
Imported	14,402	15,613	15,811	20,880	25,506	35,323	42,280	48,403
Exported	1,133	1,180	1,186	4,480	4,807	6,790	10,509	10,561

AT A GLANCE

TURNOVER OF
\$1.622billion
RECORD RESULT FOR THE TAB

\$139million
RETURNED TO THE NEW ZEALAND RACING INDUSTRY
(UP \$11M ON 2010/11)

INCREASE IN FIXED ODDS BETTING
UP 27.4 % TO
\$189.6million

IMPORTED RACING TURNOVER
UP 6.6%
ON MORE BETTING OPPORTUNITIES

FIXED ODDS BETTING ACROSS RACING AND SPORT
GROWING AND NOW ACCOUNTS FOR
27% OF TURNOVER

RECORD TURNOVER FOR A SINGLE EVENT, WITH
\$30.2million
FOR RUGBY WORLD CUP 2011

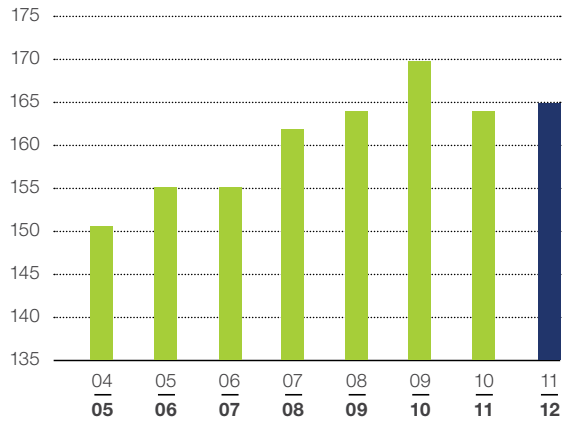
GROSS BETTING MARGIN **16.8%** IN 2011/12

PICK6 **GREW 15.8%**
HELPED BY SPECIAL TERMINATING GUARANTEES

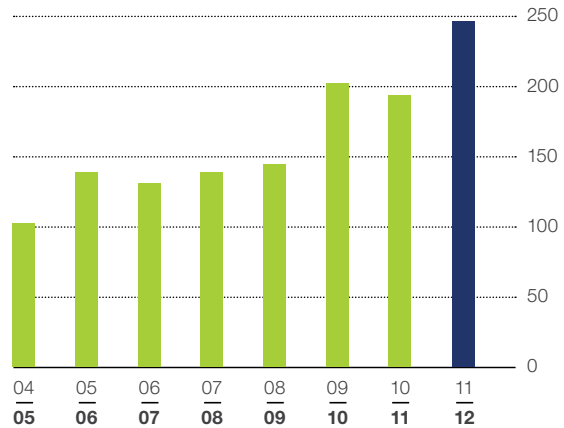
146,000
BETTING ACCOUNTS
UP 15,000 ON 2010/11

\$13.8million
TURNOVER ON NEW PRODUCT FINAL FIELD PLACE IN FIRST
FIVE MONTHS OF LAUNCH

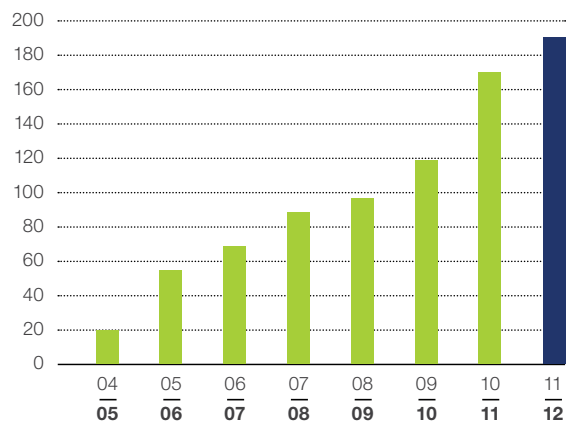
TICKETS ISSUED (millions)



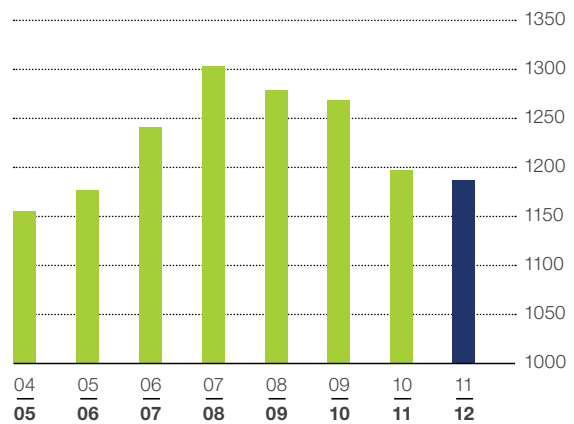
SPORTS FIXED ODDS BETTING (Turnover \$millions)



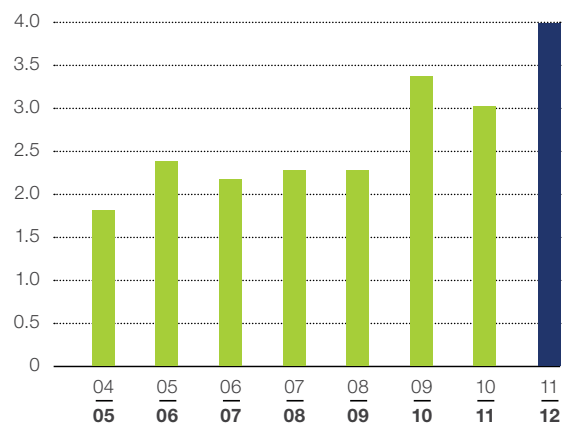
RACING FIXED ODDS BETTING (Turnover \$millions)



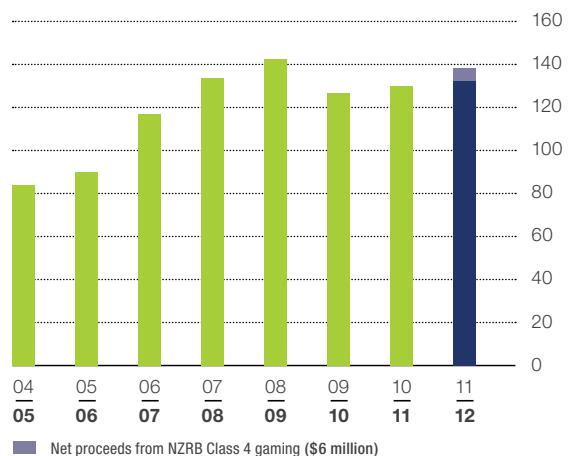
RACING TOTE (Turnover \$millions)



SPORTS LEVIES (\$millions)



FUNDING TO THE RACING INDUSTRY (\$millions)





ABOUT US

Bet with the TAB on the gallops, trots or greyhounds, take a punt on rugby, football or cricket, the majority of every dollar bet goes to supporting and developing racing and sport in New Zealand.

The New Zealand Racing Board was established in 2003 under the Racing Act as the organisation to administer all racing and sports betting in New Zealand.

We are a major entertainment business with more than 146,000 TAB account-holders and a nationwide presence with more than 690 retail outlets. As well as a rapidly growing Internet betting service – tab.co.nz – we also operate two digital television channels, a radio station and a range of mobile and telephony channels.

Our operations are diverse and reflect the complexity, size and scope of the organisation, as well as its reliance on cutting-edge technology to maximise performance and efficiency.

In 2011/12 we supported more than 10,700 domestic races and 48,000 imported races, as well as offering betting on a wide range of domestic and international sporting events.

The vast majority of our personnel run the many facets that make up the TAB operation – scheduling daily racing for customers in New Zealand and Australia, selling bets through our retail network or via the telephone and Internet, and transmitting

racing and industry information and product on our national broadcast channels Trackside TV, TAB TV and Radio Trackside.

After operating costs and expenses, our profit is distributed to the three New Zealand Racing Codes – thoroughbred, harness and greyhounds – in accordance with an agreed funding model. We also pay levies to sporting bodies based on turnover and profit on sports wagering.

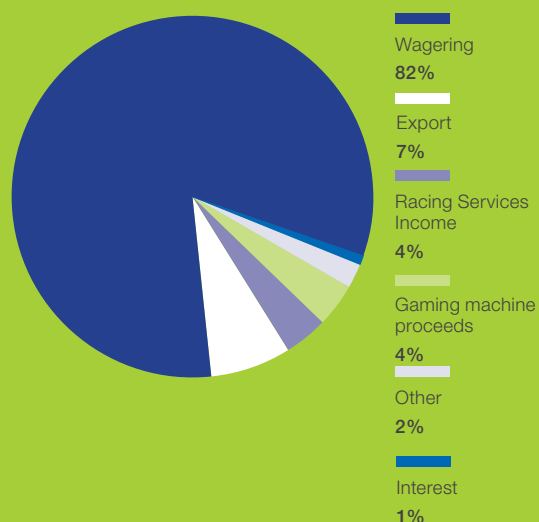
The industry expenses paid for by the NZ Racing Board include the laboratory analysis of swabs, operation of the Racing Integrity Unit in the financial year to July 31, 2012, funding for the Judicial Control Authority, on-course marketing and promotion, as well as contributions to the Agriculture Industry Training Organisation (AgITO) and equine research through Massey University.

The 2011/12 season was the first year of a new agreed funding allocation model, which runs until July 2015 and is subject to annual review.

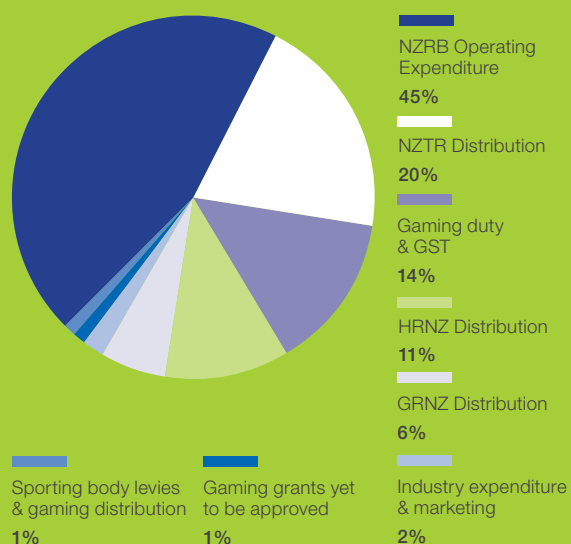
The Racing Codes are responsible for determining the model for the consequent on-funding of their respective Clubs and other initiatives.

DISTRIBUTION

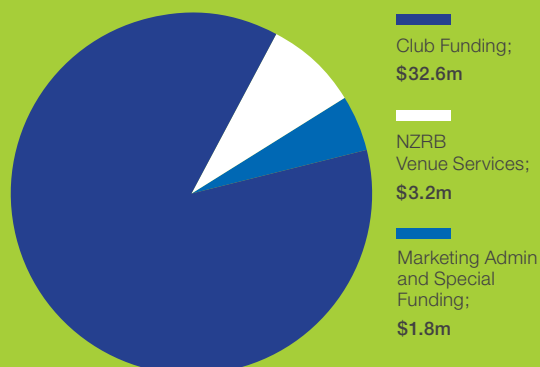
\$349.7M INDUSTRY REVENUE



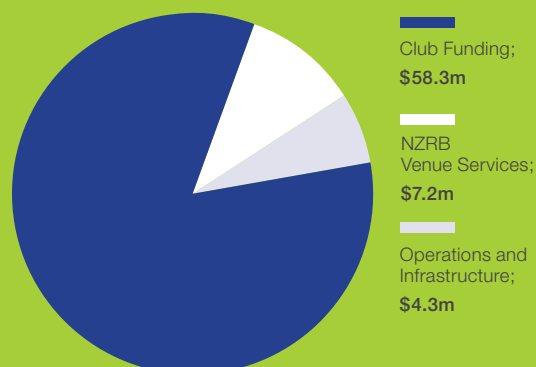
\$349.7M REVENUE APPLICATION



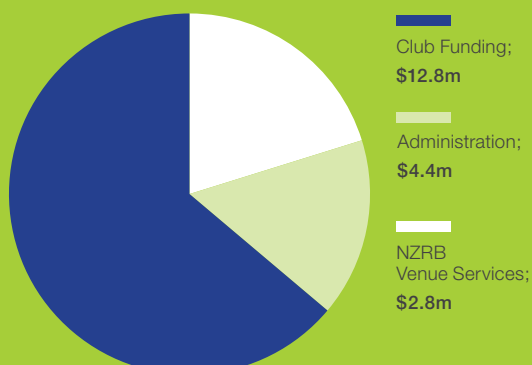
\$37.6M HARNESS DISTRIBUTION



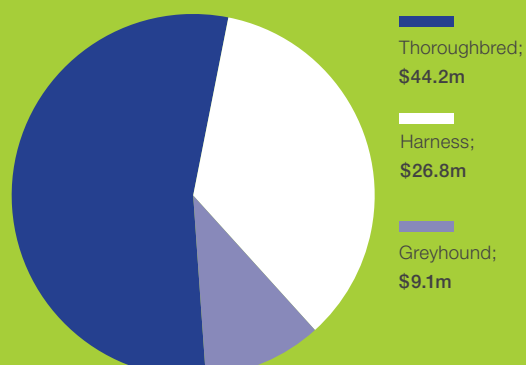
\$69.8M THOROUGHBRED DISTRIBUTION



\$20M GREYHOUND DISTRIBUTION



\$80.1M NET STAKES TO OWNERS





CHAIRMAN'S REPORT

Strong results in challenging circumstances were a highlight in 2011/12 for the New Zealand Racing Board. However, there is a mandate for change to ensure the organisation is facilitating growth and sustainability for the country's important and valuable racing industry.

Record betting turnover on racing and sport of \$1.622 billion in 2011/12 came in a year where all businesses in New Zealand continued to face economic uncertainty both domestically and globally.

The NZ Racing Board's final distribution to the three Racing Codes in 2011/12 of \$133 million* was pleasing despite a backdrop of broader economic uncertainty, and aided by the start of a stronger and more focused industry-wide approach to meeting challenges and capitalising on opportunities.

It is clear that only by working together with a considered and common purpose will the New Zealand racing industry successfully realise its potential.

To this end, key representatives from the NZ Racing Board and the three Codes have established a stronger and more defined governance process via the Combined Racing Industry Group (CRIG). This group will discuss, decide and oversee activities using a 'whole-of-industry' approach to delivering positive outcomes for the racing industry across a broad range of initiatives.

Eight key industry spheres of opportunity were identified by CRIG in 2011/12 and the focus for the group and its stakeholders is now on facilitating a shared understanding of these in order to develop an integrated and strategic approach to industry activity to deliver positive outcomes.

Already we have seen strong impetus and, as a result, a much clearer view of the way forward for the racing industry. An overview of key areas of opportunity racing industry stakeholders are working on together can be found on pages 18-19.

A major project that continued through much of 2011/12 was the review of the planned betting system upgrade. Intended as a replacement of the Jetbet system, now legacy technology more than 30 years old, the selected system ultimately failed to deliver a solution suitable to business requirements.

As a result, an impairment charge of \$10.9 million was applied to the project in 2011/12.

While this was a disappointing conclusion, the project did deliver peripheral benefits. Notably, it assisted in the development and implementation of urgently needed additional capacity, functionality and future-proofing within the Jetbet system, while also helping establish a clear and detailed understanding of future business requirements of the betting system.

In addition, key learnings have come as a result, particularly in terms of how the organisation evaluates and manages projects of this scope and magnitude.

In 2011/12 we saw a continuation of several key trends shaping current business thinking.

* plus an additional \$6 million in net proceeds from the TAB's Class 4 gaming operation, comprising \$3.5 million distributed in 2011/12 as per authorised purposes as well as \$2.5 million retained for future grant applications.

Significantly, betting on the domestic tote continues to trend down as customer preference shifts strongly toward fixed odds betting on racing and betting on sports.

Growth in both these areas was strong in 2011/12, highlighted by record betting turnover of \$30 million on the 2011 Rugby World Cup. The All Blacks' win in the final capped a great result for the country and the TAB, further enhancing returns to the racing industry.

The marked growth in sports betting represents an excellent opportunity on which the racing industry must capitalise. Growth in sports betting continues to go from strength to strength and has driven impressive gains in customer acquisition. A key opportunity for the racing industry is translating growth in this area to increased betting on racing.

Internationalisation continues to be a critical focus of current activity and represents a significant opportunity for further growth in racing. By giving customers more racing product on which to wager we are enhancing returns to the domestic racing industry, while growth in the export of New Zealand racing to overseas markets is delivering increasing revenue and showcasing our industry to a global audience.

As well as a stronger focus on collaboration with the racing Codes and other key industry stakeholders, the NZ Racing Board will also continue building stronger relationships with government.

We are very heartened by the focus the Minister for Racing, the Honourable Nathan Guy, has placed on the development of a detailed strategic approach to ensuring the long-term sustainability of the New Zealand racing industry.

Like the NZ Racing Board, the Minister acknowledges and supports the clear mandate for change, with the formulation of detailed and cohesive strategic plan for the industry a top priority. Work has begun on this plan and stakeholders will be engaged and consulted in its development and deployment.

While the scope of planning is being determined, one thing that is certain is that there will be change. The process of change is already under way in 2012/13 with the appointment of several new members to the seven-member Board.

Having commenced as Chairman on August 1, 2012, new members of the Board are Greg McCarthy (nomination of Thoroughbred Racing NZ), Rod Croon (nomination of Harness Racing NZ), Mauro Barsi (nomination of Greyhound Racing NZ), Graham Cooney and Alistair Ryan. Liz Dawson continues as a Board member.

I am delighted by the calibre, commitment and passion for racing of the new appointments, which

will assist the NZ Racing Board in meeting its responsibility of building a stronger racing industry.

I would like to thank Warren Bell, Thayne Green, Simon Moutter and Ray O'Connor for their work as members of the Board in key committees and I also acknowledge the contribution of Michael Stiassny, who served as Chairman of the NZ Racing Board from 2007.

As well as significant change in the composition of the Board in 2012/13, there has also been major change in management of the business.

Chris Bayliss was appointed Chief Executive Officer of the NZ Racing Board and began his duties on August 1, 2012.

With the appointment of Mr Bayliss, the NZ Racing Board farewellled interim CEO Bill Colgan. On behalf of the business and the New Zealand racing industry, I sincerely thank Bill for his contribution.

Mr Bayliss has already set about the task of preparing the business for inevitable change with the full support of the Board.

As well as overseeing an in-depth review of current business activity, Mr Bayliss is charged with developing a vision, mission and strategy for the NZ Racing Board and, subsequently, the racing industry.

This process will require time, robust consultation, careful consideration and a clear understanding of roles and responsibilities. We must put aside pre-conceived notions and agendas and work together for growth and sustainability.

Every aspect of the NZ Racing Board operation is now under intense scrutiny and examination, with a view to ensuring appropriate investment in initiatives and activities that will deliver most benefit to racing in New Zealand and the many national sporting bodies we help support.

There is much for the New Zealand racing industry to be positive about but we must work together to realise its potential. The Board and management of the NZ Racing Board look forward to working with all industry stakeholders and participants in building a sustainable future for an industry that means so much to New Zealand.



Alan Jackson

Chairman



CHIEF EXECUTIVE'S REPORT

A strong performance by the business in 2011/12 is pleasing, but we have much to do to ensure the New Zealand racing industry fully realises its potential.

Having been appointed to the role of Chief Executive Officer on August 1, 2012, I have only had a short time to develop an understanding of the challenges and opportunities the NZ Racing Board and the racing industry faces.

"Our future strategy must be ambitious and provide a clear future direction for the business and its stakeholders."

Some change has already occurred and as this process continues we will undertake due diligence with industry stakeholders to ensure the focus is on delivering better outcomes.

While the environment remains challenging, it is clear there is significant scope to grow the New Zealand racing industry and deliver sustainably improved returns.

With this in mind, the management focus of the NZ Racing Board is on leading the development and implementation of a cohesive strategy and vision to ensure the racing industry in this country is best-placed to capitalise on the many opportunities the future holds.

There were solid results for the business in 2011/12, including: record TAB betting turnover of \$1.622 billion, a distribution to the Racing Codes of \$133 million (plus additional Class 4 gaming proceeds of \$6 million), strong growth in fixed odds betting, increasing revenue from internationalisation, a surge in the number of TAB account-holders (assisted by

excellent business performance around the Rugby World Cup), the successful launch of innovative new products including Final Field Place and the Watch&Bet live sports-streaming service and better delivery of our services and products via digital platforms to meet accelerating customer demand.

These results provide a solid base from which we must seek to drive the business and, ultimately, lift the New Zealand racing industry to even greater heights.

Accordingly, my immediate focus has been on ensuring the NZ Racing Board is, as an organisation, geared to facilitate the delivery of greater returns to the racing industry and its participants.

"My immediate focus has been on ensuring the NZ Racing Board is, as an organisation, geared to facilitate the delivery of greater returns to the racing industry and its participants."

This has necessitated a comprehensive review of all our activities – current and planned – to ensure we are ready to launch into, and lead, what will be a sustained period of positive change for the business and the wider industry.

The purpose of this review is to ensure the business is making the best and most effective investment in initiatives that will deliver immediate and future gains to racing in keeping with a clear, industry-wide approach to issues and opportunities.

Our future strategy must be ambitious and provide a clear future direction for the business and its stakeholders.

Most importantly, mapping our way forward will require the co-operation and collaboration of the industry.

This will take time and require new thinking.

“There is much to be done but I am hugely encouraged by the strong support and input of the Board, NZ Racing Board team and the country’s racing industry in working toward achieving the best results.”

The process of developing the NZ Racing Board’s strategy requires a clear understanding of the many challenges and opportunities that face us as a business and an industry. Success is contingent on the input and support of all industry stakeholders and thoughts on how we might best achieve this were recently discussed at a series of stakeholder roadshows nationwide hosted by myself, Chairman Alan Jackson and the Minister for Racing, the Honourable Nathan Guy.

The positive feedback from those who attended has underscored our view that change is needed and that this is strongly supported by the industry.

While more detailed information can be found in this Annual Report, there is an over-arching set of elements which will contribute to the development of the NZ Racing Board’s emerging strategy.

There are five distinct areas of focus – what I have defined as the ‘Five Cs’ – that underpin the development of the NZ Racing Board’s strategic approach. These are Culture, Capabilities, Customer, Community and Convergence of industry thinking.

Culture: Creation of a culture of professionalism and success within the NZ Racing Board, with the onus on ensuring the business is suitably equipped to deliver positive outcomes for stakeholders in a strong, performance-driven environment.

Capabilities: A focus on achieving better commercial outcomes, providing a solid platform for growth and a setting of clear goals and targets that challenge the business.

Customer: To deliver better results the organisation will seek to better understand and engage with its current customers and develop relationships with new customers via channels that best suit them.

Community: To build a better reputation of the business as a betting provider and to enhance the perceptions of the racing industry as a major contributor to the country’s economy and culture.

Convergence (of industry thinking): Thinking big and working together with the industry to invest in developing a framework that will deliver positive outcomes for participants using clear objectives and understanding of responsibilities.

Work on these critical elements of our strategy is already under way, fundamentally ‘rebooting’ the NZ Racing Board’s activities to provide an environment which allows the business to deliver maximum gains for the racing industry.

There is much to be done but I am hugely encouraged by the strong support and input of the Board, NZ Racing Board team and the country’s racing industry in working toward achieving the best results.

By working together we can ensure a bright future for New Zealand’s racing industry.



Chris Bayliss

Chief Executive

GOVERNANCE STATEMENT

The Racing Act 2003 sets out the authority, responsibilities, membership and operation of the NZ 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 members, consisting of:

- an independent Chairperson;
- three members appointed on the nomination of each Racing Code – one of each of: New Zealand Thoroughbred Racing Inc, Harness Racing New Zealand Inc and the New Zealand Greyhound Racing Association Inc; and
- three members 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, but may be eligible for reappointment.

As at July 31, 2012, the Board of the New Zealand Racing Board consisted of:

- Michael Stiasny (Chairman)
- Warren Bell
- Liz Dawson
- Thayne Green (nomination of Greyhound Racing NZ)
- Alan Jackson (nomination of NZ Thoroughbred Racing)
- Ray O'Connor (nomination of Harness Racing NZ)

Simon Moutter left the Board in June 2012.

As at August 1, 2012, there have been significant changes to the composition of the Board. As of the start of the 2012/13 racing season and the new financial year, the full Board consists of:

- Alan Jackson (Chairman)
- Mauro Barsi (nomination of Greyhound Racing NZ)
- Rod Croon (nomination of Harness Racing NZ)
- Graham Cooney
- Liz Dawson
- Greg McCarthy (nomination of NZ Thoroughbred Racing)
- Alistair Ryan

BOARD RESPONSIBILITIES

The Board is responsible for the overall direction and control of the NZ Racing Board's activities. 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 Racing Codes on a regular basis through Combined Racing Industry Group (CRIG) meetings, and annual Statement of Intent, Annual Report 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; and,
- fostering an organisational culture that requires Board members, management and staff to adhere to high standards of ethics and corporate behaviour.

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

BOARD PROCESSES

The Board met 11 times during the year to July 31, 2012. 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 meetings.

The NZ Racing Board maintains an Interests Register in which the interests of its members are recorded. Board Members are expected to manage any



THE MANAGEMENT OF THE BUSINESS AND AFFAIRS OF THE
NZ RACING BOARD TAKES PLACE UNDER THE DIRECTION OF ITS
GOVERNING BODY, THE BOARD

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; and,
- to maximise profits for the long-term benefit of New Zealand racing.

BOARD COMMITTEES

The Board has formally constituted five committees to July 31, 2012 – the Dates Committee, the Audit and Finance Committee, the Compensation and Development Committee, the Sports Committee and the Net Proceeds Committee.

These committees support the Board by considering relevant issues at a suitable 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 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 purpose, 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, in 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; and,
- any conditions of allocation.

As at 31 July 2012 the Dates Committee consisted of Thayne Green (Chairperson), Ray O'Connor, Michael Stiassny, Liz Dawson and Alan Jackson.

AUDIT AND FINANCE COMMITTEE

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

The Audit and Finance Committee meets at least four times a year and as at 31 July 2012 consisted of Warren Bell (Chairperson), Ray O'Connor and Michael Stiassny.

The NZ Racing Board's internal assurance function conducts independent reviews that assist the Board and management to meet their statutory and other obligations. The internal assurance function is part of the Governance and Assurance area, which has reporting lines to both management (the Chief Executive) and to the Chairperson of the Audit and Finance Committee.

The internal assurance function conducts or oversees independent appraisals of:

- the continued operation and effectiveness of internal controls in place to safeguard and monitor all material risks to the NZ Racing Board;
- the completeness and accuracy of the financial and other records of the NZ Racing Board;
- compliance with Board policies and management directives;
- the economic and efficient management of resources; and,
- the effectiveness of operations undertaken by the NZ Racing Board.

In performing this role, the internal assurance function adopts a risk-based approach and a Strategic Assurance Plan is developed annually covering each business area of the NZ Racing Board, with greater emphasis placed on those areas where the highest risk exists. The Plan is approved by the Audit and Finance Committee.

COMPENSATION AND DEVELOPMENT COMMITTEE

The Compensation and Development Committee monitors issues and determines policies and practices relating to the remuneration of the Chief Executive and the rest of the Racing Board Leadership Team, as well as overseeing management development and succession planning processes. At the last meeting during the 2011/12 year, the Compensation and Development Committee consisted of Simon Moutter (Chairperson), Liz Dawson, Thayne Green and Michael Stiassny.

SPORTS COMMITTEE

The Sports Committee monitors issues relating to the NZ Racing Board's partnerships with sporting bodies and sports betting. The Sports Committee consisted of Liz Dawson (Chairperson), Simon Moutter, Ray O'Connor and Michael Stiassny.

NET PROCEEDS COMMITTEE

The Net Proceeds Committee was established at the start of the 2011/12 financial year to allocate the proceeds of the NZ Racing Board's Class 4 gaming activity to racing and amateur sports bodies for authorised purposes. It consisted of Liz Dawson, Warren Bell, Simon Moutter and Michael Stiassny.



BOARD MEMBERS AND REMUNERATION YEAR ENDED 31 JULY 2012

	MEMBER'S REMUNERATION	BOARD MEETINGS	AUDIT & FINANCE COMMITTEE	COMPENSATION & DEVELOPMENT COMMITTEE	DATES COMMITTEE	SPORTS COMMITTEE	NET PROCEEDS COMMITTEE
MICHAEL STIASSNY	\$77,000	11*	4	3	2	2	5
WARREN BELL	\$39,000	11	4*				5*
LIZ DAWSON	\$49,833	11		3	2	2*	5
SIMON MOUTTER	\$37,583	10		3*		2	4
RAY O'CONNOR	\$42,999	11	4		2	2	
THAYNE GREEN	\$44,000	10		3	2*		
ALAN JACKSON	\$39,000	10			2		
NUMBER OF MEETINGS		11	4	3	2	2	5

* Chairperson during the year.

Simon Moutter left the Board in June 2012.

BOARD MEMBERS

The Board comprises an independent Chairperson, three independent members and three members nominated by each of the Racing Codes.

AS AT AUGUST 1, 2012, CURRENT BOARD MEMBERS ARE:



ALAN JACKSON

INDEPENDENT CHAIRPERSON
BE(Hons), PHD, MBA

Alan Jackson was appointed to the Board as Chairman as at 1 August 2012, having served on the Board as the thoroughbred Code nominee from October 2010. Until 2009 he was Australasian chairman, senior vice-president and director of The Boston Consulting Group and has been an international management consultant since 1987, with experience at the most senior levels of international and government businesses. He has worked across a range of industries, including resources, entertainment and consumer goods and retail. He is Chairman of Housing New Zealand Corporation and a director of Fletcher Building Industries.



LIZ DAWSON

INDEPENDENT MEMBER
BCOM

Liz Dawson has extensive experience in professional sports administration and marketing with the New Zealand Rugby Union and the successful Rugby World Cup 2011 bid, as well as with the Warriors rugby league franchise and Hurricanes Super rugby organisation. Liz was appointed to the Board in August 2007 and brings a wealth of retail marketing and corporate management experience.



GREG McCARTHY

THOROUGHBRED CODE NOMINEE
BCA, CA

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



ALISTAIR RYAN

INDEPENDENT MEMBER
MCOMM, CA

Alistair Ryan has extensive corporate and finance sector experience in the listed company sector in New Zealand and Australia. During a 16-year career with SKYCITY Entertainment Group Limited through to 2011, he has been a member of the senior executive team, holding the positions of General Manager Corporate, Company Secretary and Chief Financial Officer. He has also served as a director of various SKYCITY subsidiaries and associated companies. Prior to SKYCITY, he was a Corporate Services Partner with international accounting firm Ernst & Young, based in Auckland. Alistair holds Master of Commerce (Honours) degree from Canterbury University and is a member of the Institute of Chartered Accountants of New Zealand and the New Zealand Institute of Company Secretaries.



ROD CROON

HARNESS CODE NOMINEE

Owner of ECM Music (1995-2005) and Lifestyle Sports (1991-94), Rod Croon was appointed to the Board in August 2012 as harness Code nominee. A standardbred breeder and owner, he has served as Chairman of Northern Harness Racing (2008-12) and is currently President of the Auckland Trotting Club. He has also served as Chairman and Director of the New Zealand Sire Stakes Board.



GRAHAM COONEY

INDEPENDENT MEMBER

Graham Cooney has been Chairman of Rugby Southland since 2008 and a director since 1998, having previously served as a director and deputy chairman of the Highlanders Super rugby franchise. He is also a founding director and Chairman of Blue Sky Meats Ltd and Chairman of the Southern Institute of Technology. He was appointed to the New Zealand Rugby Union Board in April 2010.



MAURO BARSÌ

GREYHOUND CODE NOMINEE
LLM(Hons), BA

Mauro Barsi is the Membership and Marketing Manager at the Employers and Manufacturers Association and is also the EMA's Corporate Counsel. He has substantial employment relations experience as an employment relations litigation practitioner and as an in-house employment relations and human resources consultant. During his time as an ER practitioner, he was involved in large-scale collective negotiations, transferred businesses from the public to private sector, and was responsible for ER/HR support across eight business units and some 1000 staff.

BOARD MEMBERS' INTERESTS REGISTER

Departing Members, as at 31 July 2012

MICHAEL STIASSNY

(Chairman)

KordaMentha, Partner

Vector Limited, Chairperson

Gadol Corporation Limited, Director

DNZ Property Group Limited, Director

WARREN BELL

No applicable interests to declare

THAYNE GREEN

No applicable interests to declare

SIMON MOUTTER

No applicable interests to declare

RAY O'CONNOR

Harness Racing New Zealand, Finance Chairperson

Cambridge Raceway Limited, Director

Cambridge-Te Awamutu Harness Club, Executive

Waipa Workingmen's Club (TAB licence-holder), Secretary

Cambridge Cosmopolitan Club (TAB licence-holder), Accountant

Board Members, as at 1 August 2012

ALAN JACKSON

(Chairman)

Broadway Racing Breeding Partnership, Director

Broadway Trust, Director

Broadway Operations, Director

MAURO BARSÌ

Greyhound Racing New Zealand, Board Member

Racing Integrity Unit, Board Member

GRAHAM COONEY

New Zealand Rugby Union, Board Member

Gen-I Southland, Bay of Plenty, Auckland, Director

ROD CROON

Croon Bloodstock Limited, Managing Director

LIZ DAWSON

Hurricanes Limited, Director

Wellington Regional Stadium Trust, Trustee

New Zealand Olympic Committee, Board Member

Hurricanes Investment Limited Partnership, Director

GREG McCARTHY

New Zealand Thoroughbred Racing, Board Member

Thoroughbred ownership interests

New Zealand Thoroughbred Breeders' Association, Member

New Zealand Thoroughbred Racehorse Owners' Federation, Member

Cambridge farm leased for thoroughbred activity, Owner

ALISTAIR RYAN

No applicable interests to declare

RACING INDUSTRY INITIATIVES

In early 2012, management of NZ Racing Board and the three Racing Codes met to collaboratively determine key challenges facing the racing industry.

There is strong acceptance that a more focused industry-wide approach is needed to meet challenges and capitalise on opportunities.

Accordingly, key representatives from the NZ Racing Board and the three Codes have established a stronger and more defined governance process via the Combined Racing Industry Group (CRIG). This group will oversee activities using a 'whole-of-industry' approach to delivering positive outcomes for the racing industry across a broad range of initiatives.

THE BROAD OBJECTIVES ARE TO:

- enhance the relevance of racing to the general public
- increase attendances/customer engagement
- improve public perceptions of racing
- increase participation in racing

These objectives are clearly inter-related. In addition, the industry recognises the need to protect the industry's income streams and the livelihoods of industry participants.

As a result, eight key industry challenges were identified, and dedicated working groups formed to formulate strategies to capitalise on untapped opportunities (see opposite page). The focus for CRIG and stakeholders is now on facilitating a shared understanding of these in order to develop an integrated and strategic approach to industry activity to deliver positive outcomes.

The necessary collaboration required to address these challenges ensures that the NZ Racing Board and Codes are jointly aware of emerging issues; with the working groups responsible for proposing and undertaking initiatives which address these evolving challenges. To date, though a number of valuable ideas and initiatives have been conceived, the greatest benefit has been the benefit of open dialogue and shared understanding.

CRIG has determined that the NZ Racing Board has a primary responsibility for four of these eight challenges:

Government relations

- address and mitigate the economic losses and risks associated with New Zealanders betting with offshore entities
- identify and develop animal welfare policies
- ensure recognition of the size, scope and economic contribution of the New Zealand racing industry

Broadcasting

- review content delivery via Trackside and TAB TV, along with new delivery media such as streaming and on-demand

Online competitiveness

- match or better the online offering of online competitors
- develop a structured and consistent approach to the digital presence of the NZ Racing Board and Racing Codes

Intellectual property

- protect and enhance the vision and data rights of New Zealand racing
- grow additional commercial opportunities

The NZ Racing Board has committed to increasing the focus and accountability for the strategies and initiatives that address these four aspects. Though assuming a lead role for these challenges, there is a continued undertaking to collaborate and engage with Code management and to report progress to CRIG.

For the remaining four key industry challenges, dedicated programme management resource and focus will be applied, with a person made responsible for project management, oversight, liaison, and reporting to CRIG regarding:

Customer engagement

- make racing more relevant to modern expectations of entertainment and immediacy
- increase breadth and depth of involvement in the sport of racing, through betting and ownership

Media

- review of industry publications
- review of racing form provision via media platforms
- increase relevance of racing in mainstream media and enhance relationships with key media organisations and personnel
- develop effective social media strategies

On-course services

- provide on-course betting services that are cost-effective, relevant and suitable for the range of race meetings
- enhance betting service provision equivalent to TAB retail network standard

OUR OPPORTUNITIES FOR CHANGE



Club infrastructure and sustainability

- assist Clubs in ensuring the provision of appropriate and quality facilities for the public
- assist Clubs in developing and implementing initiatives to increase attendance
- assist Clubs in leveraging non-raceday incomes

In the current absence of a broad strategy for the racing industry, the development of which is a key priority for the NZ Racing Board, it is envisaged that the undertaking of initiatives that attend these challenges will be jointly considered by CRIG and will be funded if immediate benefits are envisaged.

RUGBY WORLD CUP

Not only was the Rugby World Cup 2011 a massive sporting event for New Zealand, it was a record-breaker for the TAB.

In what was the biggest campaign ever undertaken by the business, both internally and externally, RWC 2011 proved an overwhelming success across the board.

Wagering on the tournament smashed records at the TAB, with total turnover exceeding \$30 million.

With punters spending \$30.2 million during the tournament, RWC 2011 was the TAB's biggest ever betting event – outstripping the previous best of \$25.6 million bet on the 2010 Football World Cup.

The New Zealand-France final, won 8-7 by the All Blacks in a nailbiter, was the TAB's biggest single sports betting fixture. Turnover on the final of \$3.5 million was \$1.3 million more than the previous best, when punters bet \$2.2 million on the David Tua-Lennox Lewis heavyweight titlefight in 2000.

The RWC 2011 campaign also proved a huge success in driving new customer acquisition.

Almost 13,000 new betting accounts were opened as a result of the TAB's RWC 2011 promotional activity, proving the ability of high-profile sports events to attract new customers.

This also generated significant benefits for racing, with almost half of these newly acquired customers subsequently betting on racing regularly post-RWC

2011 alongside additional sports betting.

The record-breaking results for the TAB also provide a healthy financial boost for rugby in New Zealand, with a percentage of betting turnover and profit channelled directly back into the game.

Business activity around RWC 2011 involved a fully integrated marketing and promotional campaign utilising the TAB Sport brand.

The key aspects of this campaign were:

- Television exposure (Trackside, free-to-air and pay-TV channels)
- Launch of the Tom and Ben television campaign, featuring the 'Prediction Chicken'
- Press, radio and public relations activity
- Online advertising and 'news' via platforms including Youtube and other social media
- In-store promotions
- A strong presence in pubs and clubs, with RWC 2011-branded self-service terminals
- A new account offer to drive customer acquisition
- Additional betting options



AT A GLANCE

- Betting turnover of \$30.2 million on the tournament, the TAB's biggest ever betting event
- Betting turnover on the final of \$3.5 million
- Almost 13,000 new accounts opened
- Almost half of all newly acquired customers from RWC 2011 activity went on to bet again on racing and sport



BUSINESS ACTIVITY AROUND RWC 2011 INVOLVED A FULLY INTEGRATED MARKETING AND PROMOTIONAL CAMPAIGN UTILISING THE TAB SPORT BRAND



AT A GLANCE

- In 2011/12 franchise brands accounted for 27% of annual attendance – 202,895 people – at domestic race meetings
- Christmas at the Races voted best national Christmas event at the 2011 and 2012 Corporate Events Guide People's Choice Awards
- Club non-wagering has increased at meetings with brand events, with gate fee revenue per person at Summer Festival events alone contributing \$356,000 a year to Clubs
- Christmas at the Races hospitality revenue was \$2.14 million in 2011/12
- On-course turnover at branded events has increased relative to all other meetings during the same time period

ON-COURSE FRANCHISE EVENTS

Enhancing the on-course experience at race meetings is viewed by the New Zealand Racing Board and the racing industry as key to raising public perceptions of racing, increasing the profitability of Clubs and engaging a new audience for racing in a competitive entertainment environment.

With this focus, the NZ Racing Board instigated a programme to assist and support Clubs in developing and marketing the on-course experience in conjunction by way of a range of franchise brand events.

The NZ Racing Board's dedicated On-course Marketing and Events team have further grown the size and scope of these franchise brand events, with Christmas at the Races and Interislander Summer Festival proving hugely effective in drawing more people to race meetings hosting these events.

In 2012 an additional major franchise brand – Mid-Winter Christmas at the Races – was added to the programme to boost attendances and Club revenue at race meetings held during this traditionally slower part of the racing season.

Customer survey information gathered at these race meetings found that 67% of those attending as part of hospitality package were attending that meeting for the first time and had been encouraged to do so by the offering of the brand event.

A total of 80 brand events were staged during the 2011/12 season, driving attendances of more than 200,000 people at these race meetings.

These franchise brand events accounted for 27% of total attendance at domestic race meetings in 2011/12.

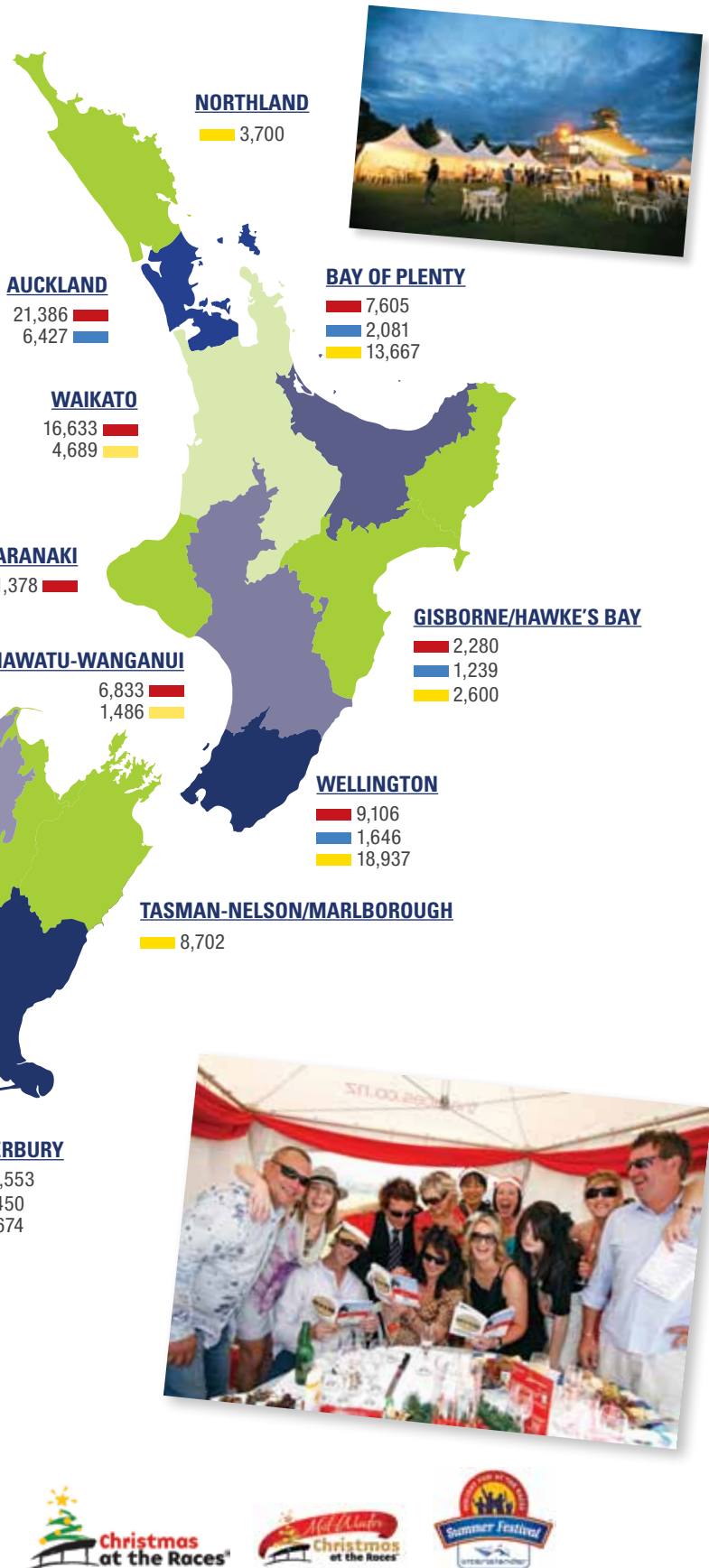
The franchise brands have allowed Clubs to participate in a programme that has clear benefits. By delivering a quality and consistent product and customer experience, Clubs are able to take advantage of a programme that greatly enhances their ability to maximise attendances and revenue in a market where competition for leisure spending is high.

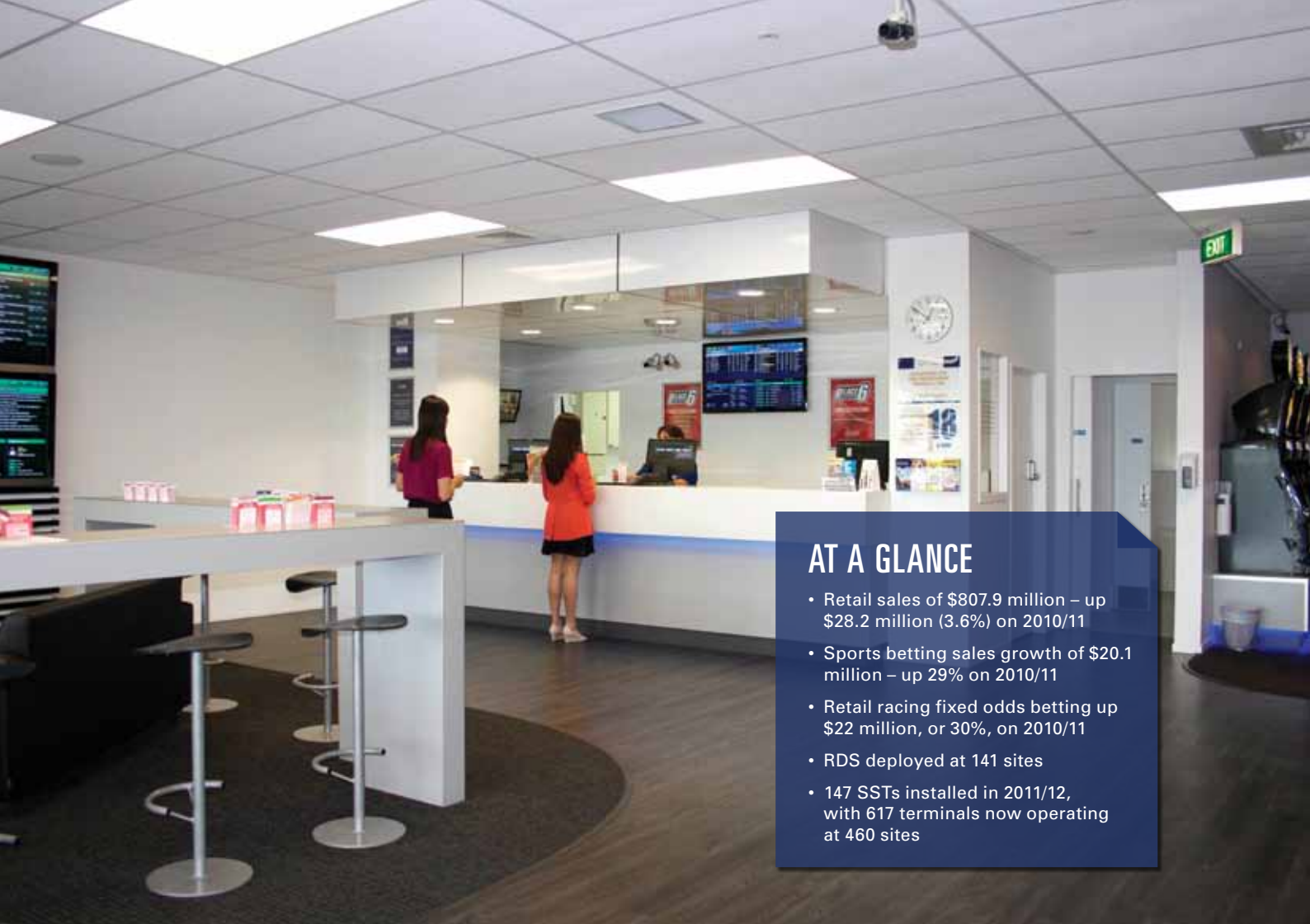
The NZ Racing Board's intent is to continue growing the activity and success of its franchise brands with further improvements and enhancements, and by encouraging more racing Clubs to be involved.

ON-COURSE FRANCHISE EVENTS 2011/2012

ATTENDANCE (GRAND TOTAL = 202,895)

- CHRISTMAS AT THE RACES
- MID-WINTER CHRISTMAS
- SUMMER FESTIVAL





AT A GLANCE

- Retail sales of \$807.9 million – up \$28.2 million (3.6%) on 2010/11
- Sports betting sales growth of \$20.1 million – up 29% on 2010/11
- Retail racing fixed odds betting up \$22 million, or 30%, on 2010/11
- RDS deployed at 141 sites
- 147 SSTs installed in 2011/12, with 617 terminals now operating at 460 sites

RETAIL

Our extensive TAB retail continues to play an important role in leading long-term growth of the business, with a rebound in 2011/12 following difficult trading conditions the previous year.

Total sales through the TAB's retail network of \$807.9 million were an increase of \$28.2 million, or 3.6%, on the previous year.

Sports betting underpinned this lift, up \$20.1 million (29%).

While racing totalisator betting declined via the retail channel, this was offset by growth in fixed odds betting on racing of \$22 million (30%).

The performance of standalone TAB outlets rebounded in 2011/12 following a previous year

impacted by the Christchurch earthquakes (resulting in the loss of four outlets) and difficult wider trading conditions.

Sports betting proved the fillip for retail, led by strong betting on the Rugby World Cup.

PubTABs also experienced a lift in 2011/12, with sales growth of \$22 million (5.1%) on 2010/11, again led by good performance in sports betting.

TOTAL SALES THROUGH THE TAB'S RETAIL NETWORK OF \$807.9 MILLION WERE AN INCREASE OF \$28.2 MILLION, OR **3.6%**, ON THE PREVIOUS YEAR

INITIATIVES

IMPLEMENTATION OF THE CHRISTCHURCH POST-EARTHQUAKE STRATEGY

The focus of the business following the Christchurch earthquakes was to safely reopen as many affected TAB outlets as possible.

Once achieved, this focus shifted to ensuring the provision of suitable and sustainable services, with greenfield outlets also established to serve affected catchments with TAB facilities where appropriate.

Additional outlets were also established to serve those catchments created by newly migrated customers.

The NZ Racing Board supported a number of outlets in 'reinventing' their offering post-quake, with new, state-of-art facilities incorporated in rebuilds at the Famous Grouse Hotel and the Valley Inn Tavern. There was also an extensive refurbishment of the Turf Bar, Parklands Tavern.

The earthquakes rendered four of Christchurch's nine TAB agencies inoperable. Development work was therefore a priority, with completion of projects at Linwood and Merivale outlets boosting the network to seven outlets. The Edwardian-style Merivale branch has been fitted out using the TAB's latest display and point-of-sale technologies, with an exceptional customer response.

RETAIL DISPLAY SCREENS (RDS)

This technology is a replacement of the legacy Teletext offering, delivering a richer, more vibrant, detailed and interactive experience for customers in the retail environment.

RDS was deployed at 141 sites in 2011/12, with total deployment of 145 sites nationwide (21% of the total retail network). This comprises:

10 agencies/branches (12% of sites)

101 PubTABs (21% of sites)

34 ClubTABs (28% of sites)

Sales performance at sites with RDS technology was strong in 2011/12, with a 7% increase in sales against sites without the technology.

SELF-SERVICE TERMINALS (SSTS)

These terminals provide customers with a self-service betting option.

Continuing on from the start of deployment in 2010/11, a further 147 SSTS were installed in 133 sites nationally in 2011/12. Total SST deployment now stands at 617 terminals across 460 sites (67% of retail outlets).

SSTs now make up 25% of total retail transactions, up from 15% in 2010/11. At PubTABs and ClubTABs this transaction growth has been more marked. In 2011/12, SSTs accounted for 35% of sales at PubTABs in 2011/12 (23% in 2010/11) and 39% at ClubTABs (21% in 2010/11).

SSTs provide a valuable addition to the customer experience, particularly at low-volume sites where manned operator staffing requirements are shared with other responsibilities.

HEINEKEN RUGBY WORLD CUP SITES

SST technology allowed the opportunity to develop temporary TAB services at a number of high-profile Heineken pubs and bars throughout the Rugby World Cup. SSTs were installed at 12 official Heineken venues throughout the tournament and for the 2011 Melbourne Cup carnival.

SSTs also provided for a TAB presence at a number of other promotional events, including the NZ Open golf tournament and the Golden Shears.

NEW SITES

Four new Board venues were opened in 2011/12. In addition to the Linwood and Merivale sites in Christchurch, new gaming outlets were opened in Te Awamutu and at Albany.

A full-service operation also opened in the Nations Clubrooms at SKYCITY in Auckland, featuring RDS and SST technology. SSTs have also been permanently installed into Sammy's Bar, located on the main gaming floor at SKYCITY.

LOW-VOLUME OUTLETS

Aimed at gaps in the TAB's retail network and with the purpose of enhancing turnover, 53 new low-volume self-service-only greenfield PubTABs and ClubTABs were opened in 2011/12. Turnover at these sites was \$6.6 million in 2011/12.





RACING AND SPORTS BETTING

The 2011/12 year was a solid one for the TAB despite challenging circumstances, with racing and sports betting turnover exceeding \$1.6 billion for the first time in the history of the business.

This strong performance was assisted by a number of key initiatives successfully launched during the year, with a strong focus on the delivery of new products, options and technology to drive results.

FINAL FIELD PLACE

Final Field Place was launched in March 2011 in response to overwhelming customer demand. Since its introduction, performance has exceeded turnover and yield expectations. By the end of the season 4357 options had been offered in Final Field Place, securing turnover of \$13.8 million (against an expectation of \$6.8 million).



WATCH&BET

The Watch&Bet live sports-streaming service was launched in May 2011 (up to 8500 sports events a year shown live on tab.co.nz) and was an immediate success with customers. Watch&Bet has helped create a more compelling and innovative sports offering (both pre-match and in-play) and provides a platform from which future improvements to in-play capability can be captured. In-play activity (betting that takes place while an event is in progress) grew significantly in 2011/12, with in-play turnover of \$40 million an increase of \$11 million on the previous season. A key focus in 2012/13 is to further develop plans for the launch of a live-streaming service for racing, combining the excitement of live racing with online betting opportunities.

TAB WATCH&BET 
Live sport online



NORTH AMERICAN RACING

Last season was the first complete year in of the provision of North American racing in the broadcast and betting schedule. In 2011/12 betting on almost 3000 thoroughbred and harness races, securing turnover of \$8.6 million.

SPORTS FIXED ODDS BETTING

Sports FOB grew rapidly throughout 2011/12, bolstered significantly by the Rugby World Cup (the largest single turnover event in TAB history) and Watch&Bet. Almost 75,000 sports betting options were offered (up 32% from the previous season's 56,438 options) and turnover increased by 29% to \$244 million from \$190 million. Sports FOB is becoming an increasingly important part of the TAB's offering, now representing 15% of total turnover (up from just 9% in 2006/07).

RACING FIXED ODDS BETTING

Racing FOB has also grown in 2011/12, benefiting from the launch of Final Field Place and the offering of a wider range of 'exotic' FOB options (such as Head-to-Head). A total of 27,681 racing options were offered in 2011/12 (up 29% from the previous season's 21,516 options), with turnover increasing 28% to \$190 million from \$149 million in 2010/11. Racing FOB now represents 12% of total turnover (up from 5% in 2006/07).

RACING

While the growth of FOB continues, the importance of Racing Totalisator betting cannot be overstated. Racing Tote still delivers 80% of Gross Betting Margin and Racing (Tote and FOB) is responsible for 89% of GBM. The gap between Domestic Tote turnover and Import Tote turnover is narrowing. In 2011/12, Domestic Racing turnover (from both Tote and FOB) was \$784 million, almost flat against the previous year's \$792 million. Conversely, Import Racing turnover (from both Tote and FOB) was \$593 million, up significantly on the previous year's \$550 million.

RACING TOTE

In 2011/12 the decline in Racing Tote turnover experienced throughout the past four seasons plateaued (\$1,188 billion in 2011/12 versus \$1,193 billion in 2010/11). It has been three years since a new Tote product was launched. In order to improve the appeal of the Tote, a new product – Place6 – was launched in December 2012. This product is extremely popular in the United Kingdom and is a first in the Australasian market. It is expected this innovation will help increase relevance of the Tote product.





AT A GLANCE

- More than 10,700 races from 1050 domestic race meetings filmed and broadcast
- Trackside and TAB TV watched by more than 160,000 regular viewers each week
- 57,000 listeners tuning into Radio Trackside each fortnight
- Record revenue of \$996,000 earned in television and radio advertising
- First HD broadcast of a domestic race meeting, the Karaka Million
- Unused UHF spectrum sold
- Two new industry programmes launched – *Kiwi Bred* and *Off the Track*
- Avalon Studio lease arrangement successfully renegotiated

BROADCASTING

The New Zealand Racing Board's broadcasting services showcase New Zealand and overseas racing and enable betting domestically and internationally.

Trackside, 20 years old in November 2012, and TAB TV screen thousands of domestic and imported races to viewers throughout the country each year, with the NZ Racing Board's broadcasting staff filming, servicing and screening more than 10,700 races from 1050 domestic meetings in 2011/12.

Imported racing, notably the start of regular screening of North American thoroughbred racing to domestic audiences in 2011/12, forms an integral part of the NZ Racing Board's overall broadcast offering.

Most importantly, internationalisation has created significant revenue gains and opportunities for the New Zealand racing industry in overseas markets.

Via partnerships with overseas broadcasting and racing bodies, New Zealand racing is sold to many territories overseas, including Australia, the United Kingdom and Europe, Asia and North America.

As well as generating revenue, the export of quality New Zealand racing product also serves to put the domestic industry on the international stage. New programmes developed and screened in 2011/12 – *Kiwi Bred* and *Off The Track* – have also showcased the

New Zealand racing industry, while Trackside produced the live broadcast of the popular Australian programme *Off the Rails* from Riccarton during 2011 Cup Week.

Having already made the switch to a fully digital service, a major highlight in 2011/12 was the first production and broadcast of a New Zealand race meeting in High Definition format, with Trackside screening the Karaka Million meeting from Ellerslie in January in partnership with Sky Sport.

In New Zealand, racing on Trackside and TAB TV was watched by an average of more than 160,000 regular viewers each week in 2011/12. This impressive reach has also allowed for growth in advertising revenue, with record revenue of \$996,000 in 2011/12.

Other significant broadcasting highlights in 2011/12 was the sale of the NZ Racing Board's unused UHF spectrum for \$900,000 and the successful renegotiation of lease arrangements of broadcasting facilities at Avalon Studios following its sale by TVNZ.

The NZ Racing Board also operates the Radio Trackside service, reaching an average of 57,000 listeners each fortnight in 2011/12.

TECHNOLOGY AND DIGITAL

2011/12 saw accelerating growth in sales via digital channels as customer preference continued to shift to online and mobile services.

Growth in online sales was up 23% on 2010/11 and betting via digital channels now accounts for 29% of all turnover (25% in 2010/11).

In recognition of this growth and the importance of digital in driving sales in line with customer demand, there were a number of key developments in the TAB's online channels in 2011/12.

INTERNET

A number of customer-driven initiatives to improve the functionality of the tab.co.nz channel were undertaken and implemented in 2011/12. These included:

- Successful delivery of the Watch&Bet live sports-streaming service
- Introduction of industry-leading 'push' updates for logged-in customers, updating odds and betting information instantaneously
- Refresh of account opening process – employing a simple, three-step process
- Refresh of the tab.co.nz homepage
- Improved online audio-streaming capabilities to allow for delivery of audio from Radio Trackside and Trackside/TAB TV channels

MOBILE

There was significant work undertaken in 2011/12 to improve the functionality of this channel, which offers a major opportunity for growth as the market share of smartphones rapidly increases. Key highlights were:

- Mobile Touch site implemented
- Improved activity reporting
- Handset detection to redirect users to a site suitable for their device
- Enhancements of the account opening and funding process

JETBET

A major project that continued through much of 2011/12 was the review of the planned betting system upgrade.

Intended as a replacement of the Jetbet system, now legacy technology more than 30 years old, the selected Typhoon system ultimately failed to deliver a solution suitable to business requirements.

However, as part of the in-depth review of the Typhoon project, the NZ Racing Board also undertook a detailed examination of Jetbet in order to develop and implement additional capacity, functionality and future-proofing within the Jetbet system, while also building a clear and detailed understanding of future business requirements of the betting system.

The Jetbet Stabilisation Project will continue, with a view to ensuring Jetbet can support business needs currently and in the next three-to-five years.



AT A GLANCE

- 188,734,343 sales transactions processed by Jetbet in 2011/12, an average of more than 3.6 million each week
- 1,233,480 Jetbet sales transactions for Rugby World Cup 2011
- Jetbet system availability 99.97%
- Almost 458 million page views of tab.co.nz

SPORTING PARTNERSHIPS

Every sports bet placed at the TAB benefits sport in New Zealand.

The TAB pays a levy comprising a percentage of betting turnover and profit to each National Sporting Organisation (NSO) governing the sport on which bets are placed.

Strong growth in sports betting therefore delivers increased benefits for sports, with total levies paid to 31 NSOs of \$4 million in 2011/12, an increase of \$1 million on the previous year.

The NZ Racing Board and its TAB Sport brand has formed strong and collaborative partnerships with NSOs and other private sporting organisations to better engage customers and enhance the sporting entertainment experience.

The 2011/12 season delivered many highlights on the sporting calendar, from Rugby World Cup 2011 to the TAB Sport-sponsored Final Four National Basketball League playoffs.

RUGBY

TAB Sport's highlight was the Rugby World Cup 2011. TAB Sport collaborated with the New Zealand Rugby Union on a number of promotional campaigns, leveraging internal broadcasting expertise for additional reach.

With betting turnover of \$30.2 million during the tournament, RWC 2011 was the TAB's biggest ever betting event – outstripping the previous best of \$25.6 million bet on the 2010 Football World Cup.

RUGBY LEAGUE

The partnership with NZ Rugby League strengthened in 2011/12, delivering more benefits for the sport from grassroots to senior representative level.

To maximise increasing betting turnover on rugby league, TAB Sport launched a sponsorship partnership with Vodafone Warriors in 2011/12 to leverage the club's growing fanbase and positioning betting as an integral part of the Warriors sporting entertainment experience.

CRICKET

Betting on cricket performed well in 2011/12. The domestic HRV Cup competition again proved popular with punters, alongside increased interest in Australia's KFC Big Bash.

TAB Sport's strong relationship with NZ Cricket brought was successful in delivering benefits for TAB Sport, NZ Cricket and customers/fans.

FOOTBALL

Given its global footprint and year-round competition, football was again a solid betting turnover performer for TAB Sport, which has worked positively with NZ Football to capitalise interest on the sport following the 2010 World Cup.

TAB Sport also signed on as a major sponsor of the country's premier professional football club in New Zealand – the Wellington Phoenix – in 2011/12.

This partnership has helped TAB Sport to become clearly recognised as a strong supporter of this major global sport.

BASKETBALL

TAB Sport was sponsor of the Bartercard National Basketball League Finals Weekend, TAB Sport Final Four, in 2011/12. The sponsorship allowed TAB Sport to better and more directly engage with basketball fans and grow betting turnover on domestic and overseas leagues.

TENNIS

The relationship between TAB Sport and New Zealand Tennis continued to go from strength-to-strength in 2011/12, allowing the business to leverage opportunities offered by the high-profile ASB Classic and Heineken Open tournaments.

GOLF

Another popular sport for betting, TAB Sport has recognised this potential by growing its relationship with New Zealand Golf. TAB Sport has a strong presence at the annual New Zealand Open at Clearwater in Christchurch, generating increased media activity as well as allowing for the provision of TAB self-service terminals on-course.



CODE CHAMPIONS

MUFHASA - THOROUGHBREDS

As a seven-year-old Mufhasa took his second New Zealand Horse of the Year title after another stellar season dominating the sprinting ranks. In his eight starts he never finished further back than fourth, racing in Group 1 company seven out of eight starts. All of his four wins were at Group 1 level - two in New Zealand (the Makfi Challenge Stakes and Captain Cook Stakes) and two in Australia (the Toorak Handicap and the Futurity).

Owners: David, Natalie and Simon Archer and Diane Wright
Trainer: Stephen McKee
Breeding: Pentire (GB)/Sheila Cheval (NZ)
Breeder: Colin and John Thompson



I CAN DOOSIT - HARNESS

Leading trotter I Can Doosit captured 13 wins from 15 starts as a six-year-old, including a series clean sweep in Perth during the final Interdominion trotting series. His four Group 1 victories in New Zealand were highlighted by a seven-length win in the inaugural Anzac Cup and a similarly dominant result in the time-honoured Rowe Cup.

Owner: Breckon Racing Syndicate
Trainer: Mark Purdon
Breeding: Muscles Yankee (USA)/Sheezadoosie (NZ)
Breeder: Breckon Bloodstock Ltd



LITTLE MOTHER - GREYHOUNDS

Champion bitch Little Mother finished her last racing season with 26 victories as she left the racetrack with a record-breaking 85 wins from 132 starts and stakes earnings of more than \$375,000. It was Little Mother's second Greyhound of the Year award in a season highlighted by wins in the Waterloo and New Zealand cups.

Owner: Gordon Sciberras
Trainer: Lisa Ahern
Breeding: Big Daddy Cool (AUS)/Zilla (AUS)
Breeder: Ian Rose



RESPONSIBLE GAMBLING

The NZ Racing Board is committed to taking proactive steps to minimise harm caused by problem gambling.

We have a statutory responsibility under the Racing and Gambling acts to report on programmes for minimising problem gambling and its impact, provide information and advice on problem gambling and provide problem gambling training to all staff who sell wagering products to customers and oversee our Class 4 gaming machine areas.

FOCUS ON HARM PREVENTION AND MINIMISATION

We continue to ensure compliance with regulation and to ensure our TAB outlets meet the rigorous standards required by training policies and compliance procedures.

During the 2011/12 year the NZ Racing Board's investment in responsible gambling measures was \$1.94 million (\$1.38 million in 2010/11). Of this, approximately \$1.82 million (\$1.29 million in 2010/11) was paid to the Crown to recover the costs of Ministry of Health's problem gambling management services.

The NZ Racing Board endorses the Ministry of Health's strategies and programmes in this area, illustrated by our representation in the Stakeholder Reference Group co-ordinated by the Department of Internal Affairs, with participation with the Ministry of Health.

This is an important opportunity to contribute, alongside 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 customer needs.

In 2011/12 approximately \$117,000 (\$99,000 in 2010/11) was predominantly invested in the provision of training in harm minimisation and prevention procedures for staff in customer-contact roles within the NZ Racing Board and the wider racing industry in order to ensure leadership continues to be taken in this area.

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

Face-to-face classroom-based training of staff is conducted at regional centres by appropriate external facilitators on a regular basis. During the 2011/12

year, 625 TAB operators received and passed problem gambling training.

In addition, the NZ Racing Board provided a complementary training programme developed in conjunction with Clubs NZ and the Problem Gambling Foundation, allowing staff to undertake intensive problem gambling awareness training online.

IDENTIFICATION AND MANAGEMENT

The NZ Racing Board has developed both proactive and reactive approaches to the identification and investigation of potential problem gambling situations.

In addition to situations where customers directly contact us to request exclusions from holding and using a TAB account or placing a bet at a TAB retail outlet, we also rely on the training of TAB operators to identify and report matters requiring further investigation with regard to problem gambling behaviour. Further, we conduct exception reporting aimed at identifying any significant changes or concerns around the betting behaviour of account customers.

In the 2011/12 year we investigated 415 potential problem gambling incidents. Of this, 135 customers were issued with exclusion notices (self-exclusion and by the NZ Racing Board), while 22 account customers were placed in the Set Your Limits betting restriction programme. These numbers represent an extremely small percentage of our customer base.

SET YOUR LIMITS PROGRAMME

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

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

Changes to the agreed limits can only be made after customer consultation with the NZ Racing Board.

To date, 62 account customers have taken advantage of the programme. Feedback from these customers has been overwhelmingly positive, in that the Set Your Limits programme had provided them with a practical way of helping them control their betting behaviour while still allowing them the enjoyment of wagering.



DURING THE 2011/12 YEAR THE NZ RACING BOARD'S INVESTMENT
IN RESPONSIBLE GAMBLING MEASURES WAS \$1.94 MILLION
(\$1.38 MILLION IN 2010/11)





FINANCIAL STATEMENTS

INCOME STATEMENT

FOR THE YEAR ENDED 31 JULY 2012

	Note	Actual 2012 NZ\$000	Budget 2012 NZ\$000 (Unaudited)	Actual 2011 NZ\$000
REVENUE AND OTHER INCOME				
Betting turnover (including GST)	1(a)	1,622,363	1,597,169	1,533,401
Net dividends (including GST)		(1,336,158)	(1,320,189)	(1,260,608)
Betting deductions (including GST)	1(b)	(47,784)	(44,948)	(44,636)
Net betting revenue (excluding GST)		238,421	232,032	228,157
Interest income	1(c)	2,063	1,538	2,177
Gaming machine proceeds	1(d)	15,020	14,434	-
Other income	1(d)	46,377	42,983	43,413
		63,460	58,955	45,590
Total revenue and other income		301,881	290,987	273,747
EXPENSES				
Operating expenses	2	163,568	155,900	146,716
Software impairment	12	11,054	-	3,200
Net return before industry expenditure and distributions	20(a)	127,259	135,087	123,831
ON-COURSE PROJECTS				
On-course projects and other expenditure funded	20(b)	1,491	1,494	1,515
Total on-course projects		1,491	1,494	1,515
DISTRIBUTIONS TO EXTERNAL BODIES				
Distributions to external bodies funded by Gaming	20(b)	846	1,101	-
Total distribution to external bodies		846	1,101	-
Surplus available for distribution		124,922	132,492	122,316
FUNDING TO THE RACING INDUSTRY				
Fixed code funding	20(c)	123,695	121,637	85,000
Domestic market share code funding	20(c)	-	-	1,167
Variable code funding	20(c)	-	-	36,368
Research and integrity funding	20(c)	6,809	6,538	3,820
Gaming activity funding	20(c)	3,543	4,404	-
Gaming yet to be paid	20(c)	2,430	-	-
Total funding	20(c)	136,477	132,579	126,355
Deficit after funding		(11,555)	(87)	(4,039)
Deficit attributable to:				
New Zealand Racing Board reserves		(11,555)	(87)	(4,039)

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

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 JULY 2012

	Actual 2012 NZ\$000	Budget 2012 NZ\$000 (Unaudited)	Actual 2011 NZ\$000
Deficit after funding	(11,555)	(87)	(4,039)
Other comprehensive loss	-	-	-
Total comprehensive income	(11,555)	(87)	(4,039)
Total comprehensive loss attributable to: New Zealand Racing Board reserves	(11,555)	(87)	(4,039)

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 JULY 2012

	Note	General reserve NZ\$000	Budget NZ\$000 (Unaudited)
Balance as at 1 August 2010		84,848	89,766
Adjust budget for actual carried forward		-	(4,918)
Other comprehensive income		-	-
Total comprehensive loss for the year		(4,039)	(927)
Balance as at 31 July 2011		80,809	83,921
Adjust budget for actual carried forward		-	(3,111)
Other comprehensive income		-	-
Total comprehensive loss for the year		(11,555)	(87)
Balance as at 31 July 2012	19	69,254	80,723

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

STATEMENT OF FINANCIAL POSITION

AS AT 31 JULY 2012

	Note	Actual 2012 NZ\$000	Budget 2012 NZ\$000 (Unaudited)	Actual 2011 NZ\$000
CURRENT ASSETS				
Cash and cash equivalents	3	11,562	5,205	10,002
Trade and other receivables	4	8,888	7,928	8,836
Other financial assets	5	44,120	37,399	31,467
Other current assets	6	2,024	2,452	1,804
Total current assets		66,594	52,984	52,109
NON-CURRENT ASSETS				
Property, plant and equipment	11	45,192	60,299	48,037
Intangible assets	12	8,949	12,529	17,330
Other financial assets	5	4,741	5,200	10,943
Total non-current assets		58,882	78,028	76,310
TOTAL ASSETS		125,476	131,012	128,419
CURRENT LIABILITIES				
Trade and other payables	7	20,162	17,762	18,886
Account betting deposits and vouchers	5	16,594	15,672	15,082
Other financial liabilities	8	9,442	8,786	9,075
Taxes payable		4,260	3,588	3,386
Provisions	9	3,263	486	237
Total current liabilities		53,721	46,294	46,666
NON-CURRENT LIABILITIES				
Other financial liabilities	8	1,500	3,300	-
Provisions	9	1,001	695	944
Total non-current liabilities		2,501	3,995	944
TOTAL LIABILITIES		56,222	50,289	47,610
Net assets		69,254	80,723	80,809
EQUITY				
General reserve	19	69,254	80,723	80,809

The members of the New Zealand Racing Board authorised these Financial Statements for issue on 17 October 2012.



Dr Alan Jackson
Chairman of the New Zealand Racing Board



Alistair Ryan
Chairman of the Audit and Finance Committee
of the New Zealand Racing Board

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 JULY 2012

	Note	Actual 2012 NZ\$000	Budget 2012 NZ\$000 (Unaudited)	Actual 2011 NZ\$000
CASH FLOWS FROM OPERATING ACTIVITIES				
Inflows				
Betting turnover		1,622,296	1,597,161	1,533,392
Racing services income		14,518	14,753	14,666
Jackpot retentions and account deposits (net)		999	301	281
Interest received		1,847	1,491	2,128
International racing fees and other income		32,242	29,431	26,960
Gaming machine proceeds		15,020	14,434	-
Gaming interest received		216	43	-
		1,687,138	1,657,614	1,577,427
Outflows				
Dividends paid		1,337,090	1,321,120	1,260,735
Fixed and domestic market share funding		111,836	110,293	108,426
On-course and Industry projects		1,879	1,825	1,825
Variable code, research and integrity funding		31,550	34,073	32,048
Payments to suppliers		85,009	79,705	80,125
Payments to employees		41,211	37,364	33,757
Goods and services tax (net)		36,114	34,051	33,826
Betting duty paid		10,872	10,378	10,771
Sports bodies' levies		3,686	3,231	3,474
Gaming distributions		7,494	11,085	-
		1,666,741	1,643,125	1,564,987
Net cash provided by operating activities	15	20,397	14,489	12,440
CASH FLOWS FROM INVESTING ACTIVITIES				
Inflows				
Repayment of short-term deposits on maturity		31	-	15,282
Disposal of property, plant and equipment		1,061	-	72
Disposal of intangible assets		-	-	1,028
Repayment of club loans		616	146	66
		1,708	146	16,448
Outflows				
Investments of short-term deposits		8,004	-	-
Purchases of property, plant and equipment		8,445	16,909	14,530
Purchases of intangible assets		1,796	-	10,323
Purchase of Gaming property, plant and equipment		3,474	5,723	-
Purchase of Gaming intangible assets		286	-	-
Drawdowns of club loans		-	-	14
		22,005	22,632	24,867
Net cash used in investing activities		(20,297)	(22,486)	(8,419)
CASH FLOWS FROM FINANCING ACTIVITIES				
Inflows				
Drawdown on secured loan		1,500	3,300	-
		1,500	3,300	-
Outflows				
Interest paid		40	100	29
Repayment on finance leases		-	-	38
		40	100	67
Net cash used in financing activities		1,460	3,200	(67)
Net increase/(decrease) in cash and cash equivalents		1,560	(4,797)	3,954
Cash and cash equivalents as at 1 August 2011		10,002	10,002	6,048
Cash and cash equivalents as at 31 July 2012	3	11,562	5,205	10,002

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

STATEMENT OF ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 JULY 2012

Reporting Entity

The New Zealand Racing Board is a statutory body established pursuant to the Racing Act 2003. The New Zealand Racing Board is domiciled in New Zealand, with its head office located at 106-110 Jackson Street, Petone, Wellington.

The principal objectives of the New Zealand Racing Board are:

- (a) to promote the racing industry; and
- (b) to facilitate and promote racing betting and sports betting; and
- (c) to maximise its profits for the long-term benefit of New Zealand racing.

These financial statements are prepared in accordance with the Racing Act 2003. The Racing Act 2003 requires disclosure of budgeted amounts approved by the Board and that the financial statements are prepared in accordance with generally accepted accounting practice.

Statement of compliance

For financial reporting purposes, the New Zealand Racing Board is designated a profit-oriented entity.

These financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'). They comply with the New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and other applicable financial reporting standards as appropriate for profit-oriented entities. These financial statements comply with International Financial Reporting Standards.

Basis of preparation

These financial statements have been prepared on the basis of historical cost except for those assets and liabilities recognised at fair value as outlined in the accounting policies below. Cost is based on the fair value of the consideration given in exchange.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The accounting policies and computation methods set out below have been applied in preparing the financial statements for the year ended 31 July 2012 and the information presented for the comparative period.

The financial statements are parent and group financial statements. The group comprises the New Zealand Racing Board, Racing Integrity Unit Limited and the Betting Accounts and Betting Vouchers Trust.

The financial statements of the group are the same as those of the parent as all assets and liabilities of the Trust are held by New Zealand Racing Board as trustee.

Racing Integrity Unit Limited was established on 1 February 2011. Expenses of \$4 million (2011: \$1.2 million) are included in 'Research and Integrity Funding' as part of 'Funding to the Racing Industry' in the Income Statement and disclosed in note 20.

Consolidation

The consolidated financial statements incorporate the assets and liabilities of all material entities controlled by the New Zealand Racing Board as at 31 July 2012 and the results of the operations of such entities for the year then ended. The New Zealand Racing Board and such entities are together referred to in these financial statements as the New Zealand Racing Board.

Controlled entities are those entities over which the New Zealand Racing Board has the power to govern the entity's financial and operating policies of that entity.

Controlled entities are consolidated from the date on which control is transferred to the New Zealand Racing Board. They are de-consolidated from the date that control ceases.

Balances between controlled entities, including inter-entity transactions, are eliminated.

Application of new and amended accounting standards

The following amended accounting standard, applicable to the New Zealand Racing Board's annual reporting period beginning on or after 1 August 2011, has been applied from the beginning of the 2012 financial year. The amendment of this standard has not had any impact on the financial results of the New Zealand Racing Board.

Amendments to NZ IAS 24 Related Party Disclosures. The amendments simplify the definition of a related party and provide further clarification of its intended meaning.

FRS 44, 'New Zealand additional disclosures (2011)'. This standard sets out New Zealand specific disclosures for entities that have adopted New Zealand equivalents to International Financial Reporting Standards (NZ IFRS's). The standard supports the objective of harmonising financial reporting standards in Australia and New Zealand. This standard has not led to any significant changes in the financial statements.

Key sources of estimation uncertainty

There are no key assumptions concerning the future, or other key sources of estimation uncertainty at the reporting date, that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Significant Accounting Policies

The following significant accounting policies have been adopted in the preparation and presentation of the financial statements.

(a) Revenue recognition

Revenue is recognised to the extent it is probable that the economic benefits will flow to the New Zealand Racing Board and the revenue can be reliably measured. The following general and specific recognition criteria must also be met before revenue is recognised:

The wagers placed on a betting event are recognised as deferred revenue (pre-sales) until the outcome of the betting event is determined, at which time the revenue is brought to account.

STATEMENT OF ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 JULY 2012

SIGNIFICANT ACCOUNTING POLICIES continued

Net Betting Revenue

Net Betting Revenue consists of resulted turnover less dividends paid and payable to customers, and less gambling duty and GST payable to the Inland Revenue Department. Except where otherwise noted Net Betting Revenue is recognised once the outcome of the betting event is confirmed.

Totalisator Revenue

Totalisator revenue is recognised once the outcome of the betting event is confirmed.

Fixed Odds Betting Revenue

Revenue is recognised as the net win or net loss on an event. Open betting positions are carried at fair market value as unresulted turnover and gains and losses arising on these positions are recognised in revenue.

International Racing Fees

International Racing Fees is income earned by the New Zealand Racing Board through the export of New Zealand racing events to international betting agencies. This revenue is based on the turnover taken by the international betting agencies on the exported racing events and is recognised at the time that the racing event takes place.

Interest Income

Interest Income is recognised using the effective interest method.

Racing Services Income

Racing Services Income refers to income the New Zealand Racing Board derives from providing on-course race day services to racing clubs, recovered as part of the funding arrangements from the Racing Code Bodies. This revenue is recognised at the time that the racing event takes place.

Gaming income

Gaming revenue comprises the income from all games played on gaming machines less payouts to customers, including jackpot payouts. The income is recognised when the individual game is played. Gaming revenue is stated net of GST.

Contributions Towards Assets

Contributions towards assets received from the Racing Code Bodies for laboratory equipment purchased by the New Zealand Racing Board are recognised as deferred income over the estimated useful life of the laboratory assets.

(b) Foreign currency transactions

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at reporting date. Foreign currency differences are recognised in the Income Statement in the period in which they arise.

The functional and presentation currency is the New Zealand dollar.

(c) Goods and Services Tax (GST)

The Income Statement 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 as outlined in section 53 of the Racing Act 2003. All items in the Statement of Financial Position and Statement of Changes in Equity are stated net of GST, with the exception of trade receivables and payables which are recognised inclusive of GST.

(d) Income Tax

The New Zealand Racing Board is exempt from income tax pursuant to section CW47 of the Income Tax Act 2007.

(e) Inventories

Inventories, including betting slips, are valued at the lower of cost and net realisable value, as determined on a weighted average basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

(f) Financial assets (other than derivatives)

Initial recognition

Financial assets are initially recognised at their fair value when the New Zealand Racing Board becomes a party to the contractual provisions of the financial instrument. Initial fair value is considered to be the cost price of the instrument except in the circumstances described below.

Club loans

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

Trade date recognition for investments

Investments are recognised and derecognised on trade date where purchase or sale of the investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned. These investments are initially measured at fair value, net of transaction costs.

Subsequent measurement

Financial assets (other than derivatives) are classified into the following specified categories: 'loans and receivables' and 'held-to-maturity investments'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Loans and receivables

Loans and receivables comprising cash and cash equivalents, trade receivables, club loans and other receivables, are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

STATEMENT OF ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 JULY 2012

SIGNIFICANT ACCOUNTING POLICIES continued

(f) Financial assets (other than derivatives) continued

Loans and receivables continued

The loans and receivables with a maturity date within twelve months of the reporting date are recognised in current assets in the Statement of Financial Position while those with maturities greater than twelve months are recognised as non-current assets.

Loans and receivables are carried at amortised cost using the effective interest method less any impairment.

Held-to-maturity investments

Held-to-maturity investments, comprising corporate bonds and certain short-term deposits, are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity (other than those instruments classified as loans and receivables).

Held-to-maturity investments are carried at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows over the expected life of the financial asset, or where appropriate over a shorter period, to the net carrying amount of the financial asset.

Cash and cash equivalents

Cash and cash equivalents are financial assets comprising cash on hand, cash at bank and investments with an initial term of less than three months.

(g) Impairment of financial assets

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

Any financial asset impairment losses are recognised within "Operating expenses" in the Income Statement.

(h) Financial liabilities (other than derivatives)

Initial recognition and subsequent measurement
Financial liabilities are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method.

Trade and other accounts payable

Trade and other accounts payable are recognised when the New Zealand Racing Board becomes obliged to make future payments resulting from the purchase of goods and services.

Unpaid dividends

Unpaid dividends represents the liability due to winning customers that has yet to be claimed. Unpaid dividends are recognised at the time the related revenue is recognised.

Jackpot retentions

Jackpot retentions are established in accordance with the Racing Rules pursuant to section 52 of the Racing Act 2003. These comprise amounts set aside from the dividend pools of certain specified bet types. The funds accumulated are used solely for supplementing some of the future dividend pools for the originating racing or sports code.

Other financial liabilities

Other financial liabilities are measured initially at fair value and subsequently at amortised cost using the effective interest rate method.

(i) Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-valued to their fair value at each reporting date. The resulting gain or loss on revaluation is recognised in the Income Statement within "Other income". The New Zealand Racing Board does not hedge account.

Fixed odds betting positions

Fixed odds betting positions are considered derivative financial instruments for financial reporting purposes.

(j) Property, plant and equipment

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

The deemed cost for land and buildings is the valuation on the inception of the New Zealand Racing Board in 2003.

Depreciation is calculated on a straight line basis so as to allocate the cost of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period.

The current annual depreciation rates are as follows:

Buildings and fit out (at deemed cost)	2.5% – 10.0%
Computer hardware	14.3% – 33.3%
Furniture, office equipment and plant	10.0% – 20.0%
Leasehold improvements	6.67% – 20.0%
Motor vehicles	14.3% – 33.3%
Operations and trackside equipment	20.0%
Gaming machines	33.0%

Gains and losses on disposals are determined by comparing the sale proceeds with the asset's carrying amount at the disposal date. The resulting gain or loss is recognised in the Income Statement within "Other income" or "Other expenses" as appropriate.

(k) Lease assets

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Finance leases

Assets held under finance leases are initially recognised at their fair value, or if lower, at amounts equal to the present

STATEMENT OF ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 JULY 2012

SIGNIFICANT ACCOUNTING POLICIES continued

(k) Lease assets continued

value of the minimum lease payments, determined at the inception of the lease.

The corresponding obligation to the lessor is included in the Statement of Financial Position as a finance lease liability.

Finance lease payments are apportioned between finance charges and reduction in the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

Assets subject to finance leases are depreciated on a straight-line basis over the shorter of the asset's estimated useful life or the lease term.

Operating leases

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

(l) Intangible assets

Broadcasting licences, software and other intangible assets are finite-life intangible assets carried at cost less accumulated amortisation and any impairment. Amortisation is charged on a straight-line basis over their estimated useful lives and is recognised within "Operating expenses" in the Income Statement. The estimated useful life and amortisation method is reviewed at the end of each annual reporting period.

The current annual amortisation rates are as follows:

Broadcasting licences	5.0% – 38.5%
Other intangible assets	16.70%
Software	14.3% – 33.3%

(m) Impairment of non-financial assets

At each reporting date, the New Zealand Racing Board reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Intangible assets not yet available for use are tested for impairment annually by comparing their carrying amounts with their recoverable amounts.

Where the asset does not generate cash flows that are independent from other assets, the New Zealand Racing Board estimates the recoverable amount of the cash-generating unit to which the asset belongs. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. Any impairment loss is recognised immediately in the Income Statement. If an impairment loss subsequently reverses, the carrying

amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the Income Statement.

(n) Provisions

Provisions are recognised when the New Zealand Racing Board has a present obligation as a result of a past event, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

(o) Employee benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, retirement gratuities and sick leave when it is probable that settlement will be required and the benefits are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within twelve months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within twelve months are measured as the present value of the estimated future cash outflows to be made by the New Zealand Racing Board. Future cash flows have been estimated based on service completed to date, expected length of service and estimated future remuneration rates. The discount rates used are government stock rates consistent with the term of the obligation.

(p) Netting in the Statement of Cash Flows

The movements in Jackpot retentions and in Goods and Services Tax have been presented net in the Statement of Cash Flows as the transactions are settled over a short period of time.

The movements in Account deposits has been presented net in the Statement of Cash Flows as these movements represent customer transactions rather than transactions of the New Zealand Racing Board.

(q) Funding

Funding payments are made based on the contractual funding agreements between the New Zealand Racing Board and the Racing Codes.

Distributions (gaming activity funding) are approved by the New Zealand Racing Board's Net Proceeds Committees under a grants policy that ensures that the authorised purpose is consistent with the purpose specified in the New Zealand Racing Board's licence.

The Gambling (Net Proceeds) Regulations 2004 requires any undistributed surplus at year end to be recorded as

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2012

SIGNIFICANT ACCOUNTING POLICIES continued

(q) Funding continued

a liability in the Statement of Financial Position and an accrued distribution in the Income Statement.

(r) Gaming machine proceeds

Gaming machine proceeds (GMP) are recognised in the period in which the services were rendered.

(s) Gaming machine duty

Gaming machine duty is payable on the GMP that the New Zealand Racing Board takes from its gaming machines. It is charged at 20% of the GMP GST inclusive total and is included in "Other expenses" in the Income Statement.

(t) New financial reporting standards and amendments not yet applied

The following financial reporting standards and amendments have been issued and have not been applied in the preparation of these financial statements. The New Zealand Racing Board considers that the application of these standards and amendments will have an immaterial recognition and disclosure impact on the financial statements.

NZ IFRS 9 Financial Instruments (effective for reporting periods commencing on or after 1 January 2015)

NZ IFRS 9 requires the re-classification of financial assets into two categories - those recognised and measured at amortised cost and those recognised and measured at fair value. Classification is dependent upon the business model adopted for managing the financial assets and upon specified criteria. The New Zealand Racing Board intends to apply the standard for the financial period ending 31 July 2016.

NZ IFRS 13 Fair value measurement (effective for reporting periods commencing on or after 1 January 2013)

NZ IFRS 13 establishes a single source of guidance under NZ IFRS for determining the fair value of assets and liabilities. This standard will also expand the disclosure requirements for all assets or liabilities carried at fair value.

The New Zealand Racing Board intends to apply these standards for the financial period ending 31 July 2014.

NZ IAS 1 Presentation of Financial Statements (effective for reporting periods commencing on or after 1 July 2012)

NZ IAS 1 changes the disclosure of items presented in other comprehensive income.

The New Zealand Racing Board intends to apply the amended standard for the financial period ending 31 July 2013.

The new and revised standards have to be implemented together and apply from 1 January 2013 (New Zealand Racing Board will apply for the period ending 31 July 2014):

NZ IFRS 10 *Consolidated Financial Statements* changes the definition of control.

NZ IFRS 11 *Joint Arrangements* reduces the types of joint arrangement to joint operations and joint ventures, and prohibits the use of proportional consolidation.

NZ IFRS 12 *Disclosure of Interests in Other Entities* brings together in one standard entities and unconsolidated structured entities.

NZ IAS 27 *Separate Financial Statements (revised)* now deals only with separate financial statements.

NZ IAS 28 *Investments in Associates and Joint Ventures (revised)* covers equity accounting for joint ventures as well as associates.

When the above accounting policy comes into effect the New Zealand Racing Board will assess the separate disclosure of the Racing Integrity Unit. However this is unlikely to have a significant impact on the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2012

	Actual 2012 NZ\$000	Budget 2012 NZ\$000 (Unaudited)	Actual 2011 NZ\$000
1. REVENUE			
REVENUE FROM CONTINUING OPERATIONS:			
(a) Betting turnover (including GST)			
Off-course racing – totalisator	1,128,164	1,156,766	1,128,091
Off-course racing – fixed odds	184,507	162,670	144,495
On-course racing	64,035	62,155	69,453
TOTAL RACING TURNOVER	1,376,706	1,381,591	1,342,039
Sports – totalisator	1,475	1,812	1,649
Sports – fixed odds	244,182	213,766	189,713
TOTAL SPORTS TURNOVER	245,657	215,578	191,362
TOTAL BETTING TURNOVER	1,622,363	1,597,169	1,533,401
(b) Betting deductions (including GST)			
Betting duty	11,243	10,549	10,663
Goods and services tax	36,541	34,399	33,973
TOTAL BETTING DEDUCTIONS	47,784	44,948	44,636
(c) Interest income from Wagering Business			
Cash and cash equivalents	326	157	289
Short-term deposits	1,308	1,045	1,498
Corporate bonds	71	111	58
Loans and advances to clubs and codes	304	224	332
	2,009	1,537	2,177
Interest income from Gaming Business			
Short term deposits	54	1	-
	54	1	-
TOTAL INTEREST INCOME	2,063	1,538	2,177
(d) Other income from Wagering Business			
Racing services income	14,518	14,753	14,666
International racing fees	22,852	20,596	20,767
Gains on disposals of property, plant and equipment	281	-	-
Net foreign exchange gains	614	-	541
Insurance recovery	-	-	771
Sale of TV rights	900	-	-
Other	7,212	7,634	6,668
	46,377	42,983	43,413
Other Income from Gaming Business			
Gaming machine proceeds	15,020	14,434	-
	15,020	14,434	-
TOTAL OTHER INCOME	61,397	57,417	43,413

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2012

	Note	Actual 2012 NZ\$000	Budget 2012 NZ\$000 (Unaudited)	Actual 2011 NZ\$000
2. OPERATING EXPENSES				
(a) Operating expenses from Wagering Business includes the following items:				
Amortisation expense	12	2,320	2,168	3,744
Auditors' remuneration				
– Auditing services		84	97	79
– Other services*		1,023	-	-
Board members' remuneration and expenses		328	331	339
Broadcasting expenses		7,833	8,028	8,669
Communications expenses		6,930	5,429	6,498
Depreciation expense	11	10,234	11,862	10,016
Employee expenses	16,17	47,155	43,660	41,149
Finance costs		117	119	30
Form guide production and marketing expenses		9,254	9,580	8,283
Insurance		1,675	1,116	947
Net movement in allowance for doubtful debts	4	30	-	(8)
Overseas racing rights		20,192	19,280	18,673
Problem gambling levy and expenses		1,685	1,465	1,374
Property and equipment leases		5,113	5,189	5,044
Restructuring costs		759	-	427
Retail and internet fees		18,875	17,924	20,500
Sporting bodies' levies		3,982	3,274	3,016
Other expenses		17,739	17,987	17,844
		155,328	147,559	146,716
(b) Losses from Wagering Business included in net surplus:				
Losses on disposals of property, plant and equipment		-	-	92
Net foreign exchange losses		-	50	-
		155,328	147,559	146,716
(c) Operating expenses from Gaming Business included the following items:				
Amortisation expense	12	54	-	-
Communication expenses		2	7	-
Depreciation expense	11	785	1,142	-
Employee expense	16,17	187	132	-
Finance costs		40	-	-
Gaming levies and duty		3,710	3,565	-
Gaming operating expenses		2,196	2,260	-
Marketing expenses		1	15	-
Other expenses		1,265	1,220	-
		8,240	8,341	-
TOTAL OPERATING EXPENSES		163,568	155,900	146,716
* Other services relate to a review of the wagering system covering programme management, business process documentation, identification of project risks and issues, and considerations of options with regard to the feasibility of the project				
		Actual 2012 NZ\$000	Budget 2012 NZ\$000 (Unaudited)	Actual 2011 NZ\$000
3. CASH AND CASH EQUIVALENTS				
Foreign currency bank accounts		1,437	985	985
Foreign currency betting accounts		458	537	537
NZ dollar bank accounts and call deposits		9,667	3,683	8,480
TOTAL CASH AND CASH EQUIVALENTS		11,562	5,205	10,002

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2012

	Actual 2012 NZ\$000	Budget 2012 NZ\$000 (Unaudited)	Actual 2011 NZ\$000
4. TRADE AND OTHER RECEIVABLES			
Trade and sundry receivables	8,926	7,928	8,844
Allowance for doubtful debts	(38)	-	(8)
TOTAL TRADE AND OTHER RECEIVABLES	8,888	7,928	8,836

Settlement receivables

The New Zealand Racing Board's retail outlets are required to settle on a weekly basis. The New Zealand Racing Board's practice is to require either bank guarantees or cash bonds from retail outlets of a value generally greater than a week's settlement.

Trade receivables

The average period outstanding on sales of goods and services is 49 days (2011: 44 days). No interest is charged on trade receivables past due date. The Board has provided for certain receivables over 90 days where debt collection agencies have been instructed to collect the debt.

Included in the New Zealand Racing Board's trade receivables balance are debtors with a carrying amount of \$804,333 that are past due at 31 July 2012 (2011: \$461,748) for which the Board has not provided or recognised any impairment loss. The Board believes the credit quality of these receivables remains sound and the amounts are fully recoverable. The New Zealand Racing Board does not hold any collateral over these balances. An analysis of the ageing of past due debtors is outlined below:

	Past due 30 - 59 days NZ\$000	Past due 60 - 89 days NZ\$000	Past due 90+ days NZ\$000	Total NZ\$000
2012				
Past due and not impaired	362	130	313	805
Impaired assets - gross	-	-	38	38
Impairment allowance	-	-	(38)	(38)
Net past due trade and other receivables	362	130	313	805
Current trade and other receivables				8,083
TOTAL TRADE AND OTHER RECEIVABLES				8,888
2011				
Past due and not impaired	334	68	58	460
Impaired assets - gross	-	-	8	8
Impairment allowance	-	-	(8)	(8)
Net past due trade and other receivables	334	68	58	460
Current trade and other receivables				8,376
TOTAL TRADE AND OTHER RECEIVABLES				8,836

Movement in the allowance for doubtful debts:

	2012 NZ\$000	2011 NZ\$000
Balance at the beginning of the year	(8)	(16)
Amounts written off during the year	-	-
Amounts recovered during the year	-	-
(Additions)/reversals in allowance	(30)	8
BALANCE AT THE END OF THE YEAR	(38)	(8)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2012

4. TRADE AND OTHER RECEIVABLES continued

Movements in the allowance for doubtful debts are recognised in Operating expenses in the Income Statement.

Amounts provided for in the allowance account are written off when there is no expectation of recovering additional cash. The maximum exposure to credit risk is the carrying value of the amounts recorded above.

In determining the recoverability of a receivable, the Board considers any change in the credit quality of the debtor from the date credit was initially granted up to the reporting date including whether a liquidator, receiver or other statutory manager has been appointed.

Within trade and other receivables, there are no entities or individuals (2011: nil) that are subject to any form of statutory management and therefore no further impairment is considered necessary.

	Note	Actual 2012 NZ\$000	Budget 2012 NZ\$000 (Unaudited)	Actual 2011 NZ\$000
5. OTHER FINANCIAL ASSETS				
Short-term deposits		18,004	10,000	10,000
Short-term deposits - Betting Accounts and Vouchers Trust		20,000	20,000	20,000
Corporate bonds		2,000	2,031	2,031
Loans and advances to clubs and codes	10	8,857	10,568	10,379
TOTAL OTHER FINANCIAL ASSETS		48,861	42,599	42,410
Disclosed as:				
Current		44,120	37,399	31,467
Non-current		4,741	5,200	10,943
TOTAL OTHER FINANCIAL ASSETS		48,861	42,599	42,410

Short-term deposits - Betting Accounts and Vouchers Trust represents funds held in trust to cover amounts owing to customers on betting accounts and unrepresented vouchers for resulted wagering.

The New Zealand Racing Board's obligations for these amounts are separately disclosed in the Statement of Financial Position as Account betting deposits and vouchers totalling \$16.6 million (2011: \$15.1 million).

	Actual 2012 NZ\$000	Budget 2012 NZ\$000 (Unaudited)	Actual 2011 NZ\$000
6. OTHER CURRENT ASSETS			
Prepayments	1,869	2,309	1,661
Inventory	155	143	143
TOTAL OTHER CURRENT ASSETS	2,024	2,452	1,804

	Note	Actual 2012 NZ\$000	Budget 2012 NZ\$000 (Unaudited)	Actual 2011 NZ\$000
7. TRADE AND OTHER PAYABLES				
Employee entitlements		3,579	3,703	3,440
Amounts payable to Board members		33	35	35
Trade payables		8,098	6,988	8,551
Accruals		7,218	5,744	5,527
Unresulted turnover	14(l)	1,105	1,163	1,172
Contributions to assets by racing codes		129	129	161
TOTAL TRADE AND OTHER PAYABLES		20,162	17,762	18,886

No interest is incurred on trade payables unless the amounts payable fall overdue. Interest is charged at the discretion of the vendor.

The New Zealand Racing Board has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2012

	Note	Actual 2012 NZ\$000	Budget 2012 NZ\$000 (Unaudited)	Actual 2011 NZ\$000
8. OTHER FINANCIAL LIABILITIES				
Code liability	16	4,403	3,639	3,639
Unpaid dividends		2,892	3,144	3,433
Jackpot retentions		2,147	2,003	2,003
Secured bank loan		1,500	3,300	-
TOTAL OTHER FINANCIAL LIABILITIES		10,942	12,086	9,075

Disclosed as:

Current		9,442	8,786	9,075
Non-current		1,500	3,300	-
TOTAL OTHER FINANCIAL LIABILITIES		10,942	12,086	9,075

	Make good NZ\$000	Long-term employee benefits NZ\$000	Sick leave NZ\$000	Gaming distribution NZ\$000	Total provisions NZ\$000
9. PROVISIONS					
Balance at 1 August 2010	427	635	78	-	1,140
Additional provisions	134	73	73	-	280
Provisions released	-	-	(35)	-	(35)
Amounts used	(80)	(81)	(43)	-	(204)
Balance at 31 July 2011	481	627	73	-	1,181
Additional provisions	123	6	47	3,037	3,213
Provisions released	(11)	(10)	(25)	-	(46)
Amounts used	(6)	(30)	(48)	-	(84)
Balance at 31 July 2012	587	593	47	3,037	4,264

	Actual 2012 NZ\$000	Budget 2012 NZ\$000 (Unaudited)	Actual 2011 NZ\$000
Disclosed as:			
Current	3,263	486	237
Non-current	1,001	695	944
TOTAL PROVISIONS	4,264	1,181	1,181

(a) Provision for make good costs

A provision has been established for anticipated future costs associated with restoring leased premises to their original condition at the end of the lease term. This provision is based on the New Zealand Racing Board's previous experience and the percentage of the lease term expired.

The leases have varying expiry dates up to 2018. The actual payment dates and costs will be known once each lease reaches its expiry date and the extent of the corresponding make good is ascertained.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2012

9. PROVISIONS continued

(b) Provision for long-term employee benefits

The New Zealand Racing Board has a group of legacy employment contracts containing long service leave entitlements and a further group of legacy employment contracts containing retirement gratuity entitlements. A provision has been established to recognise the probable amounts to vest to employees in the future based on estimated future salaries, payment dates and achievement of service milestones. The provision includes amounts for both long service leave and retirement gratuity.

(c) Provision for sick leave

A provision has been established for accumulating sick leave to the extent that it is probable that employees will take more days than their annual entitlement in any year. An employee is entitled to 10 days per annum. The provision has been calculated on an average of sick days taken throughout the financial year divided by the annual entitlement per employee to get a dollar value.

(d) Gaming Distribution

At 31 July 2012, grants from Class 4 Gaming operations that had not been approved for distribution totalled \$3,037 thousand. As all Class 4 Gaming surpluses must be distributed under Authorised Purpose and cannot be retained within the business, a provision for "Grants yet to be approved and distributed" has been made for future distribution.

	Note	Actual 2012 NZ\$000	Budget 2012 NZ\$000 (Unaudited)	Actual 2011 NZ\$000
10. LOANS AND ADVANCES TO CLUBS AND CODES				
New Zealand Greyhound Racing Association		-	412	458
New Zealand Metropolitan Trotting Club (Inc)		6,003	6,003	5,800
New Zealand Thoroughbred Racing		-	1,297	1,297
RACE Inc		2,813	2,820	2,710
Wanganui Greyhound Racing Club		22	21	43
Whangarei Racing Club Inc		19	15	71
LOANS TO CLUBS AND CODES	5	8,857	10,568	10,379
Disclosed as:				
Current		6,116	7,399	1,467
Non-current		2,741	3,169	8,912
LOANS TO CLUBS AND CODES		8,857	10,568	10,379

The amounts outlined above are the loan carrying values recognised in the Statement of Financial Position.

As outlined in the significant accounting policies, at the time each loan tranche was initially advanced, a fair value adjustment was made to the loan carrying amount that reflected the differential between the interest rate charged on the loan and current market interest rates for similar loans. This adjustment is fully amortised over the life of the loan so that the loan carrying value at maturity is equal to the cash amount due.

The loan carrying values include the net fair value adjustments after amortisation at the effective interest rate, loan interest at the contracted rate and any repayments made.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2012

10. LOANS AND ADVANCES TO CLUBS AND CODES continued

Reconciliation of loan carrying values to loan amounts outstanding

The following table provides a reconciliation of the loan carrying value to the actual loan amounts outstanding. The net fair value adjustments comprise the originating adjustments less accumulated amortisation.

	Loan carrying value NZ\$000	Net fair value adjustments NZ\$000	Loan balance outstanding NZ\$000
2012			
New Zealand Metropolitan Trotting Club (Inc)	6,003	91	6,094
RACE Inc	2,813	178	2,991
Wanganui Greyhound Racing Club	22	-	22
Whangarei Racing Club Inc	19	1	20
LOANS TO CLUBS AND CODES	8,857	270	9,127
2011			
New Zealand Greyhound Racing Association	458	78	536
New Zealand Metropolitan Trotting Club (Inc)	5,800	295	6,095
New Zealand Thoroughbred Racing	1,297	-	1,297
RACE Inc	2,710	283	2,993
Wanganui Greyhound Racing Club	43	1	44
Whangarei Racing Club Inc	71	1	72
LOANS TO CLUBS AND CODES	10,379	658	11,037

The interest rates on outstanding loans at the reporting date are as follows:

	Interest rate		Rate type
	2012	2011	
New Zealand Greyhound Racing Association	5.00%	5.00%	Fixed
New Zealand Metropolitan Trotting Club (Inc)	2.88%	2.88%	Variable
RACE Inc	3.50%	3.50%	Variable
Wanganui Greyhound racing Club	4.00%	4.00%	Fixed
Whangarei Racing Club Inc	2.88%	2.88%	Variable

Loan approval amounts have remained constant at the existing levels throughout the reporting period.

The New Zealand Racing Board is satisfied as to the ultimate collectability of all these loans.

COLLATERAL

The outstanding balances of the loans granted by the New Zealand Racing Board are secured and are repayable in cash.

The New Zealand Metropolitan Trotting Club loan is secured by a General Security Agreement and mortgage over all the assets of the New Zealand Metropolitan Trotting Club (Inc) and Addington Raceway Ltd.

The main public stand at Addington suffered major damage in the Canterbury earthquakes and has been demolished. New Zealand Racing Board has agreed with New Zealand Metropolitan Trotting Club (Inc) that \$6.1m of this settlement will be held in escrow to ensure repayment of the loan. The New Zealand Racing Board will receive this in December 2012.

The New Zealand Racing Board has a second-ranking charge over the assets of Racing at Awapuni, Otaki and Trentham Combined Enterprise Incorporated (RACE Inc) and its subsidiary racing clubs. Bank of New Zealand has the first-ranking charge over these assets to a priority of \$9.2 million plus interest and costs. The combined value of the RACE Inc assets subject to the BNZ and New Zealand Racing Board charges as at 31 July 2012 was \$33.1 million (31 July 2011 \$35.3 million).

New Zealand Thoroughbred Racing Incorporated guarantees to cover any shortfall for RACE Inc of up to \$1.0 million from distributions owing from the New Zealand Racing Board. If a shortfall were to exceed \$1.0 million, New Zealand Thoroughbred Racing Incorporated will pay one third of the shortfall amount annually from distributions owing to it from the New Zealand Racing Board until repaid.

The Wanganui Greyhound Racing Club's loan is secured by a Deed of Guarantee under which the New Zealand Greyhound Racing Association acts as guarantor.

The Whangarei Racing Club Incorporated loan is secured by a Deed of Guarantee under which New Zealand Thoroughbred Racing Incorporated acts as guarantor.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2012

11. PROPERTY, PLANT AND EQUIPMENT

	Land NZ\$000	Buildings NZ\$000	Computer hardware NZ\$000	Office equipment NZ\$000
COST OR DEEMED COST				
Balance at 1 August 2010	2,590	13,894	37,429	4,527
Additions	-	109	5,732	350
Disposals	-	(99)	(2,027)	(49)
Net transfers between asset classes	-	-	-	-
Net change to work in progress	-	-	-	-
Balance at 31 July 2011	2,590	13,904	41,134	4,828
Additions	-	150	2,851	158
Disposals	(275)	(598)	(3,632)	(139)
Net transfers between asset classes	-	-	-	-
Net change to work in progress	-	-	-	-
Balance at 31 July 2012	2,315	13,456	40,353	4,847
DEPRECIATION AND IMPAIRMENT LOSSES				
Balance at 1 August 2010	-	(4,821)	(32,877)	(2,693)
Depreciation for the year	-	(496)	(2,896)	(433)
Impairment losses	-	-	-	-
Disposals	-	99	2,014	49
Net transfers between asset classes	-	-	-	-
Balance at 31 July 2011	-	(5,218)	(33,759)	(3,077)
Depreciation for the year	-	(493)	(3,061)	(336)
Impairment losses	-	-	-	-
Disposals	-	298	3,615	139
Net transfers between asset classes	-	-	-	-
Balance at 31 July 2012	-	(5,413)	(33,205)	(3,274)
NET BOOK VALUE				
Balance at 1 August 2010	2,590	9,073	4,552	1,834
Balance at 31 July 2011	2,590	8,686	7,375	1,751
Balance at 31 July 2012	2,315	8,043	7,148	1,573

The net book value of the assets for the Gaming Division included within Property, Plant and Equipment is \$2,676,000 (2011: nil)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2012

Leasehold improvements NZ\$000	Motor vehicles NZ\$000	Operations and trackside NZ\$000	Gaming Machines NZ\$000	Total property, plant and equipment in use NZ\$000	Work in progress NZ\$000	Total property, plant and equipment NZ\$000
19,663	2,951	37,077	-	118,131	4,180	122,311
3,146	458	1,764	-	11,559	-	11,559
(1,148)	(370)	(378)	-	(4,071)	-	(4,071)
-	6	-	-	6	-	6
-	-	-	-	-	2,200	2,200
21,661	3,045	38,463	-	125,625	6,380	132,005
4,239	816	1,144	2,860	12,218	-	12,218
(728)	(502)	(3,266)	-	(9,140)	-	(9,140)
-	-	-	-	-	-	-
-	-	-	-	-	(3,260)	(3,260)
25,172	3,359	36,341	2,860	128,703	3,120	131,823
(12,031)	(2,564)	(22,879)	-	(77,865)	-	(77,865)
(2,008)	(303)	(3,880)	-	(10,016)	-	(10,016)
-	-	-	-	-	-	-
1,030	346	375	-	3,913	-	3,913
-	-	-	-	-	-	-
(13,009)	(2,521)	(26,384)	-	(83,968)	-	(83,968)
(2,385)	(364)	(3,655)	(725)	(11,019)	-	(11,019)
-	-	-	-	-	-	-
587	469	3,248	-	8,356	-	8,356
-	-	-	-	-	-	-
(14,807)	(2,416)	(26,790)	(725)	(86,632)	-	(86,632)
7,632	387	14,198	-	40,266	4,180	44,446
8,652	524	12,079	-	41,657	6,380	48,037
10,365	943	9,550	2,135	42,072	3,120	45,192

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2012

	Software NZ\$000	Licences NZ\$000	Other intangible assets NZ\$000	Total intangible assets in use NZ\$000	Work in progress NZ\$000	Total intangible assets NZ\$000
12. INTANGIBLE ASSETS						
COST OR DEEMED COST						
Balance at 1 August 2010	43,670	4,337	4,850	52,857	6,959	59,816
Additions	1,463	1,114	-	2,577	-	2,577
Disposals	(539)	(2,921)	-	(3,460)	-	(3,460)
Net transfers between asset classes	-	-	(6)	(6)	-	(6)
Net change to work in progress	-	-	-	-	7,490	7,490
Balance at 31 July 2011	44,594	2,530	4,844	51,968	14,449	66,417
Additions	2,908	913	-	3,821	-	3,821
Disposals	(49)	(2)	-	(51)	-	(51)
Net transfers between asset classes	-	-	-	-	-	-
Net change to work in progress	-	-	-	-	1,228	1,228
Balance at 31 July 2012	47,453	3,441	4,844	55,738	15,677	71,415
AMORTISATION AND IMPAIRMENT LOSSES						
Balance at 1 August 2010	(37,664)	(3,888)	(4,044)	(45,596)	-	(45,596)
Amortisation for the year	(2,942)	(296)	(506)	(3,744)	-	(3,744)
Impairment losses	-	-	-	-	(3,200)	(3,200)
Disposals	539	2,914	-	3,453	-	3,453
Net transfers between asset classes	-	-	-	-	-	-
Balance at 31 July 2011	(40,067)	(1,270)	(4,550)	(45,887)	(3,200)	(49,087)
Amortisation for the year	(2,195)	(179)	-	(2,374)	-	(2,374)
Impairment losses	-	-	-	-	(11,054)	(11,054)
Disposals	47	2	-	49	-	49
Net transfers between asset classes	-	-	-	-	-	-
Balance at 31 July 2012	(42,215)	(1,447)	(4,550)	(48,212)	(14,254)	(62,466)
NET BOOK VALUE						
Balance at 1 August 2010	6,006	449	806	7,261	6,959	14,220
Balance at 31 July 2011	4,527	1,260	294	6,081	11,249	17,330
Balance at 31 July 2012	5,238	1,993	294	7,526	1,423	8,949

Development of new wagering system and subsequent software impairment

In 2009 the New Zealand Racing Board entered into agreements for the supply of a replacement wagering system, called Helix. At the end of the 2011 Financial Year it was determined that the Helix revenue engine project did not meet a number of key technical milestones. The total amount which had been spent on Helix at this time was \$14.1 million which the Board then decided to impair by \$3.2 million.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2012

12. INTANGIBLE ASSETS continued

A review was then conducted by PricewaterhouseCoopers and was presented to the Board in December 2011. A number of items indicated the Helix project did not meet expectations.

A second review was conducted by PricewaterhouseCoopers and was presented to the Board in July 2012, who resolved that the project would not proceed. The New Zealand Racing Board reviewed the full list of items in work and progress. Redeployed hardware were capitalised (\$0.3 million) and the remainder of the work in progress balance of \$10.9 million was written of as an impairment loss.

Software and work in progress are predominately internally generated assets.

The net book value of the assets for the Gaming Division included with Software is \$231,000 (2011: nil).

13. STATEMENT OF COMMITMENTS

(a) Capital commitments

Capital expenditure contracted for at the reporting date but not recognised as a liability is as follows:

	2012 NZ\$000	2011 NZ\$000
Property, plant and equipment and intangible assets -- payable:		
Within one year	217	188
Later than one year but no later than five years	-	-
TOTAL CAPITAL COMMITMENTS	217	188

(b) Operating lease commitments

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

	2012 NZ\$000	2011 NZ\$000
Within one year	4,807	5,100
Later than one year but no later than five years	8,741	8,924
Later than five years	464	983
TOTAL OPERATING LEASE COMMITMENTS	14,012	15,007

The New Zealand Racing Board leases various buildings under operating leases. The leases have varying terms and renewal rights. On renewal, the terms of the leases are to be negotiated.

One of the leased properties have been sublet by the New Zealand Racing Board. The lease and sublease expires in 2016. Sublease payments of \$111,841 (2011: \$113,708) are expected to be received during the financial year.

Eleven (2011: thirteen) of the leased properties have outstanding rent reviews. These are expected to be settled within the next financial year.

For the year ended 31 July 2012, \$5.0 million was recognised as an expense in the Income Statement in respect of operating leases (2011: \$5.0 million).

(c) Other non-cancellable operating commitments

The New Zealand Racing Board has a number of non-cancellable operating commitments that relate to services other than the lease of land and buildings (which are disclosed separately in part (b) of this Note to the Financial Statements).

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

Non-cancellable contracts held by the New Zealand Racing Board predominantly comprise technical services associated with the broadcasting of racing plus telecommunication services.

The total commitment under non-cancellable operating contracts at 31 July 2012 was \$50.4 million (2011: \$41.3 million). This comprised \$14.3 million (2011: \$5.2 million) payable within one year of balance date, \$36.1 million (2011: \$30.2 million) payable later than one year but not later than five years after balance date. There are no non-cancellable operating contracts payable later than five years after balance date (2011: \$5.9 million).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2012

14. FINANCIAL INSTRUMENTS

(a) Capital risk management

The Board manages its capital through the optimisation of equity levels. This ensures it is able to continue as a going concern whilst maximising the return to the industry stakeholders. The Board's equity comprises the general reserve, consisting of accumulated balances of prior years' retained surplus or deficit. The Board reviews the appropriateness of its capital structure on an annual basis as part of the annual budget cycle. As part of this review, the Board considers the distribution or retention of general reserve balances.

(b) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument, are disclosed in the Statement of Accounting Policies.

(c) Categories of financial instruments

2012	Note	Fair value through profit & loss NZ\$000	Held-to- maturity NZ\$000	Loans and receivables NZ\$000	Financial liabilities at amortised cost NZ\$000	Total NZ\$000
ASSETS						
Cash and cash equivalents	3	-	-	11,562	-	11,562
Trade and other receivables	4	-	-	8,888	-	8,888
Other financial assets	5	-	40,004	8,857	-	48,861
Total financial assets		-	40,004	29,307	-	69,311
Total non-financial assets						56,165
TOTAL ASSETS						125,476
LIABILITIES						
Trade and other payables	7	1,105	-	-	19,057	20,162
Account betting deposits and vouchers		-	-	-	16,594	16,594
Other financial liabilities	8	-	-	-	10,942	10,942
Total financial liabilities		1,105	-	-	46,593	47,698
Total non-financial liabilities						8,524
TOTAL LIABILITIES						56,222

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2012

14. FINANCIAL INSTRUMENTS continued

2011	Note	Fair value through profit & loss NZ\$000	Held-to- maturity NZ\$000	Loans and receivables NZ\$000	Financial liabilities at amortised cost NZ\$000	Total NZ\$000
ASSETS						
Cash and cash equivalents	3	-	-	10,002	-	10,002
Trade and other receivables	4	-	-	8,836	-	8,836
Other financial assets	5	-	32,031	10,379	-	42,410
Total financial assets		-	32,031	29,217	-	61,248
Total non-financial assets						64,371
TOTAL ASSETS						125,619
LIABILITIES						
Trade and other payables	7	1,172	-	-	17,714	18,886
Account betting deposits and vouchers		-	-	-	15,082	15,082
Other financial liabilities	8	-	-	-	9,075	9,075
Total financial liabilities		1,172	-	-	41,871	43,043
Total non-financial liabilities						4,567
TOTAL LIABILITIES						47,610

(d) Financial risk management

The Corporate Treasury function co-ordinates all foreign exchange transactions and investment activity as well as monitoring and managing all financial risks relating to the operation of the Board. These risks include credit risk, liquidity risk, interest rate risk and foreign exchange risk.

The use of financial instruments is governed by the Treasury policy approved by the Board of the New Zealand Racing Board. The policy provides written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments. The policy also outlines the principles for liquidity risk management.

Compliance with the Treasury policy and the exposure limits therein is reviewed annually by the internal audit function of the New Zealand Racing Board. The New Zealand Racing Board does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

A Treasury report is presented to the Board on a monthly basis outlining the exposure limits and compliance with the Treasury policy.

The New Zealand Racing Board uses recognised bookmaking tools and strategies to appropriately manage risk and exposure. These include customer profiling, pricing management and using a spread of options to take a portfolio approach. In addition to this, the bookmakers are also able to lay off exposures with other betting agencies.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2012

14. FINANCIAL INSTRUMENTS continued

(e) Liquidity risk management

Liquidity risk is the risk that the New Zealand Racing Board will encounter difficulties in meeting its payment obligations as they fall due.

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

The following table outlines the Board's remaining contractual maturities for its financial liabilities including derivative instruments.

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

The undiscounted cash flows differ from the amounts recognised in the Statement of Financial Position for the relevant financial liabilities because the amounts recognised in that statement are based on the notional cash flows discounted to their present value.

Where the amount payable is variable because it is based on variable interest rates or other factors, the amount in the table has been determined based on the conditions existing at the end of the reporting period.

	Less than 1 month NZ\$000	1-3 months NZ\$000	3 months to 1 year NZ\$000	1-5 years NZ\$000	5+ years NZ\$000	Total NZ\$000
FINANCIAL LIABILITIES 2012						
Trade and other payables	(12,001)	(814)	-	-	-	(12,815)
Account betting deposits and vouchers	(16,594)	-	-	-	-	(16,594)
Other non-interest bearing liabilities	(5,039)	-	-	-	-	(5,039)
Variable rate instruments	(2,403)	-	-	-	-	(2,403)
Unresulted dividends	(7,218)	-	-	-	-	(7,218)
Secured bank loan	-	-	-	(1,500)	-	(1,500)
Total notional cash outflows for recognised liabilities	(43,255)	(814)	-	(1,500)	-	(45,569)
<i>Financial guarantees (maximum amount payable)</i>						
Cheque encashment letters of credit	(25)	-	-	-	-	(25)
Club loan guarantees*	(8,820)	-	-	-	-	(8,820)
TOTAL NOTIONAL CASH OUTFLOWS	(52,100)	(814)	-	(1,500)	-	(54,414)

	Less than 1 month NZ\$000	1-3 months NZ\$000	3 months to 1 year NZ\$000	1-5 years NZ\$000	5+ years NZ\$000	Total NZ\$000
FINANCIAL LIABILITIES 2011						
Trade and other payables	(18,486)	(400)	-	-	-	(18,886)
Account betting deposits and vouchers	(15,082)	-	-	-	-	(15,082)
Other non-interest bearing liabilities	(5,436)	-	-	-	-	(5,436)
Variable rate instruments	(3,639)	-	-	-	-	(3,639)
Unresulted dividends	(1,172)	-	-	-	-	(1,172)
Secured bank loan	-	-	-	-	-	-
Total notional cash outflows for recognised liabilities	(43,815)	(400)	-	-	-	(44,215)
<i>Financial guarantees (maximum amount payable)</i>						
Cheque encashment letters of credit	(19)	-	-	-	-	(19)
Club loan guarantees*	(8,820)	-	-	-	-	(8,820)
TOTAL NOTIONAL CASH OUTFLOWS	(52,654)	(400)	-	-	-	(53,054)

* The New Zealand Racing Board does not expect club loan guarantees to be called.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2012

14. FINANCIAL INSTRUMENTS continued

(e) Liquidity risk management continued

The following table details the Board's expected maturities for its financial assets. The table comprises the notional undiscounted contractual cash flows for the Board's financial assets, including interest that will be earned on those assets. The timing of the cash inflows is based on the financial asset's contracted maturity date except where the Board expects that the cash flow will occur in a different period. The undiscounted cash flows differ from the amounts recognised in the Statement of Financial Position for the relevant financial assets because the amounts recognised in that statement are based on the notional cash flows discounted to their present value. Where the amount receivable is variable because it is based on variable interest rates or other factors, the amount in the table has been determined based on the conditions existing at the end of the reporting period.

	Less than 1 month NZ\$000	1-3 months NZ\$000	3 months to 1 year NZ\$000	1-5 years NZ\$000	5+ years NZ\$000	Total NZ\$000
FINANCIAL ASSETS 2012						
Cash and investments						
Non-interest bearing	470	-	-	-	-	470
Variable interest rate instruments	11,092	18	55	2,073	-	13,238
Betting Accounts and Vouchers (interest bearing) -	-	-	20,000	-	-	20,000
Fixed rate instruments	-	8,307	10,438	-	-	18,745
	11,562	8,325	30,493	2,073	-	52,453
 Trade and other receivables	 8,888	 -	 -	 -	 -	 8,888
 Loans and advances to clubs						
Non-interest bearing	-	-	-	-	-	-
Variable interest rate instruments	9	26	6,350	3,188	-	9,573
Fixed rate instruments	-	-	23	-	-	23
	9	26	6,373	3,188	-	9,596
TOTAL FINANCIAL ASSETS	20,459	8,351	36,866	5,261	-	70,937

	Less than 1 month NZ\$000	1-3 months NZ\$000	3 months to 1 year NZ\$000	1-5 years NZ\$000	5+ years NZ\$000	Total NZ\$000
FINANCIAL ASSETS 2011						
Cash and investments						
Non-interest bearing	550	-	-	-	-	550
Variable interest rate instruments	9,429	18	55	2,146	-	11,648
Betting Accounts and Vouchers (interest bearing)	-	-	20,000	-	-	20,000
Fixed rate instruments	-	-	11,350	31	-	11,381
	9,979	18	31,405	2,177	-	43,579
 Trade and other receivables	 8,836	 -	 -	 -	 -	 8,836
 Loans and advances to clubs						
Non-interest bearing	1,297	-	-	-	-	1,297
Variable interest rate instruments	-	18	79	9,710	-	9,807
Fixed rate instruments	-	79	35	353	213	680
	1,297	97	114	10,063	213	11,784
TOTAL FINANCIAL ASSETS	20,112	115	31,519	12,240	213	64,199

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2012

14. FINANCIAL INSTRUMENTS continued

(f) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the New Zealand Racing Board. The New Zealand Racing Board is exposed to varying degrees of credit risk on all its financial assets.

	Note	2012 NZ\$000	2011 NZ\$000
MAXIMUM EXPOSURE TO CREDIT RISK			
Cash and cash equivalents	3	11,562	10,002
Foreign currency forward exchange contracts	5	-	-
Short-term deposits	5	38,004	30,000
Total liquid investments		49,566	40,002
Trade and other receivables	4	8,888	8,836
Corporate bonds	5	2,000	2,031
Loans to clubs and codes	5	8,857	10,379
Total financial assets		69,311	61,248
UNRECOGNISED CREDIT EXPOSURES			
Guarantee issued	14(e)	8,820	8,820
Total unrecognised credit exposures		8,820	8,820
TOTAL CREDIT EXPOSURES		78,131	70,068

All loans to clubs and codes are fully secured as detailed in Note 10 Loans and advances to clubs and codes. The guarantee issued relates to surety provided to Bank of New Zealand for their advance to Racing at Awapuni, Otaki and Trentham Combined Enterprise Incorporated. Full details of this guarantee are disclosed in Note 22 Statement of contingent liabilities.

Concentrations of credit risk

The New Zealand Racing Board considers that it is exposed to concentrations of credit risk where a group of financial assets with similar shared characteristics represents at least 20% of the total assets in each significant financial asset class.

Based on this analysis, the New Zealand Racing Board is exposed to the following concentrations of credit risk:

	2012 %	2012 NZ\$000	2011 %	2011 NZ\$000
Liquid investments				
<i>(Counterparty concentrations)</i>				
New Zealand registered banks	99.7%	24,444	99.7%	38,932
Other counterparties	0.3%	74	0.3%	104
Total liquid investments	100%	24,518	100%	39,036
Trade and other receivables				
<i>(Industry & geographical concentrations)</i>				
Australian betting agencies	36.7%	3,261	17.8%	1,569
New Zealand retail TAB outlets	14.3%	1,272	32.4%	2,865
Other New Zealand trade and other receivables	49.0%	4,355	49.8%	4,402
Total trade and other receivables	100%	8,888	100%	8,836

The New Zealand Racing Board has some concentration of credit risk with New Zealand registered banks. Currently, all New Zealand registered banks with which the New Zealand Racing Board has invested have a credit rating of AA-.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2012

14. FINANCIAL INSTRUMENTS continued

(g) Foreign currency exchange rate risk

The New Zealand Racing Board is exposed to exchange rate fluctuations from certain foreign currency denominated transactions it undertakes. Exchange rate exposures are managed within approved policy parameters including the use of forward foreign exchange contracts.

Exposure to Australian dollar exchange rate fluctuations is mitigated by the natural hedge that arises from amounts payable and receivable on international racing product fees.

The New Zealand Racing Board's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

		Assets		Liabilities	
		Foreign currency '000	NZD NZ\$000	Foreign currency '000	NZD NZ\$000
2012					
Australian dollars	AUD	4,487	5,789	2,566	3,303
Pounds sterling	GBP	70	137	19	2
United States dollars	USD	42	53	2	38
Hong Kong dollars	HKD	1	-	19	-
		4,600	5,979	2,606	3,343
2011					
Australian dollars	AUD	3,154	3,953	3,300	4,162
Pounds sterling	GBP	38	341	7	-
United States dollars	USD	207	66	-	13
Singapore dollars	SGD	1	-	7	-
		3,400	4,360	3,314	4,175

Foreign currency sensitivity analysis

As at 31 July 2012, if the New Zealand dollar had strengthened / weakened against the Australian dollar by 1% (2011: 1%), with all other variables held constant, the net surplus before distributions would have been \$25,000 (2011: \$2,000) lower/higher as a result of lower/higher foreign exchange gains. There would also be a corresponding decrease / increase in equity.

Forward foreign exchange contracts

The New Zealand Racing Board's Treasury policy allows management to enter into forward foreign exchange contracts to cover foreign currency payments where the New Zealand dollar equivalent exposure is greater than NZD 50,000.

The notional value of forward foreign exchange contracts outstanding as at 31 July 2012 was nil (2011: nil).

(h) Interest rate risk

The New Zealand Racing Board is exposed to interest rate risk through its club loans, cash and call account balances, short-term deposits and corporate bonds held. The carrying values of these exposures are detailed in the Credit risk section of this note at 14(f) above.

As at 31 July 2012, if the interest rates had increased / decreased by 0.5% (2011: 0.5%), with all other variables held constant, the net surplus before distributions would have been \$699,083 (2011: \$498,000) higher / lower as a result of higher / lower net interest receipts. There would also be a corresponding increase / decrease in equity.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2012

14. FINANCIAL INSTRUMENTS continued

(i) Fair values of financial instruments

The table below provides an analysis of the methodology used for valuing those financial assets and financial liabilities that are either carried at fair value or are re-measured at fair value because their carrying amounts are considered to differ from their fair value. The fair value of each class of financial instrument has been allocated in full to the category that most accurately reflects the basis of the fair value calculation.

Except for the financial instruments detailed in the table, the Board considers that the carrying amounts of financial assets and financial liabilities at amortised cost approximate their fair values.

Fair value measurement at the end of the reporting period using:

	Note	Quoted market price NZ\$000	Observable market inputs NZ\$000	Non- observable inputs NZ\$000	Total fair value measurement NZ\$000	Carrying value NZ\$000
2012						
Financial assets						
Financial assets measured at amortised cost						69,311
Total financial assets	14(c)					69,311
Financial liabilities						
Unresulted Turnover	7	-	-	1,105	1,105	1,105
Total financial liabilities measured at fair value					1,105	1,105
Financial liabilities measured at amortised cost						46,593
Total financial liabilities	14(c)					47,698
2011						
Financial assets						
Financial assets measured at amortised cost						61,248
Total financial assets	14(c)					61,248
Financial liabilities						
Unresulted Turnover	7	-	-	1,172	1,172	1,172
Total financial liabilities measured at fair value					1,172	1,172
Financial liabilities measured at amortised cost						41,871
Total financial liabilities	14(c)					43,043

There have been no transfers between classes.

Valuation methods and assumptions

The fair value of open fixed odds single betting positions (unresulted turnover) is calculated by applying the New Zealand Racing Board's expected probability of each outcome to the potential gross dividend payable on any particular outcome.

Gains and losses on financial instruments valued using non-observable inputs

In accordance with the New Zealand Racing Board's accounting policy, all gains and losses on unresulted turnover are recognised in Net betting revenue in the Income Statement.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2012

15. RECONCILIATION OF NET SURPLUS TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	Actual 2012 NZ\$000	Budget 2012 NZ\$000 (Unaudited)	Actual 2011 NZ\$000
Deficit attributable to New Zealand Racing Board Reserves	(11,555)	(87)	(4,039)
NON-CASH ITEMS			
Depreciation expense	11,019	13,003	10,016
Amortisation expense	2,374	2,168	3,744
Foreign exchange (gain) / loss	(83)	50	(541)
Doubtful debts written off / (recovered)	30	-	(8)
Loan fair value adjustment	(389)	(331)	(309)
Software impairment	11,054	-	3,200
Other non-cash items	465	145	604
	24,470	15,035	16,706
ITEMS CLASSIFIED AS INVESTING/FINANCING ACTIVITIES			
Net (gain) / loss on sale of property, plant and equipment	(281)	-	92
Net finance costs	157	119	30
	(124)	119	122
MOVEMENT IN CURRENT ASSETS			
(Increase) / decrease in trade and other receivables	(52)	908	(121)
(Increase) / decrease in inventories	(12)	-	85
(Increase) in other assets	(208)	(648)	(665)
(Increase) / decrease in code asset	1,297	-	(311)
	1,025	260	(1,012)
MOVEMENT IN LIABILITIES			
Increase / (decrease) in trade payables and accruals	673	(1,595)	(1,533)
(Decrease) in unpaid dividends	(541)	(289)	(289)
Increase in account betting deposits and vouchers	1,512	590	697
Increase / (decrease) in jackpot retentions	144	-	(127)
Increase in employee entitlements	139	263	260
Increase / (decrease) in taxes payable	874	202	(267)
Increase / (decrease) in code liability	764	-	1,928
(Decrease) in deferred revenue	(67)	(9)	(9)
Increase in other liabilities	3,083	-	3
	6,581	(838)	663
Net cash provided by operating activities	20,397	14,489	12,440

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2012

16. RELATED PARTIES

Funding transactions with racing codes

In the 2011-12 season, the New Zealand Racing Board agreed to bulk fund the racing codes to a maximum value of \$133.7 million (2010-11 \$131.2 million). This funding includes a variable component between codes based on export commissions, fixed odds and on-course turnover and current season market share. The majority of the funding – \$121.7 million (2011: \$85 million) – is fixed based on code market share for the previous two seasons. Further detail on funding is outlined in Note 20.

	Note	Funding		Code liability		Code asset	
		2012 NZ\$000	2011 NZ\$000	2012 NZ\$000	2011 NZ\$000	2012 NZ\$000	2011 NZ\$000
ENTITY							
NZ Greyhound Racing Association		20,281	19,361	(1,517)	(2,012)	-	-
Harness Racing New Zealand		37,898	37,731	(1,462)	(1,627)	-	-
New Zealand Thoroughbred Racing		70,141	65,443	(1,424)	-	-	1,297
Other funding		8,157	3,820	-	-	-	-
Total funding transactions	20(c)	136,477	126,355	(4,403)	(3,639)	-	1,297

Other transactions with racing codes and racing clubs

In addition to funding transactions, the New Zealand Racing Board has numerous transactions with the racing codes and racing clubs. It is not practicable to disclose all transactions with codes and clubs. Outlined below are the material transactions outside of the funding policies.

Entity	Transaction	Transaction value		Balance outstanding	
		2012 NZ\$000	2011 NZ\$000	2012 NZ\$000	2011 NZ\$000
New Zealand Greyhound Racing Association	On-course venue services, trackside operations and radio recoveries	2,807	3,092	-	-
	Loan for the construction of an artificial racing surface at Manawatu Greyhound Racing Club	-	-	-	537
Harness Racing New Zealand	On-course venue services, trackside operations and radio recoveries	4,513	4,699	-	-
New Zealand Thoroughbred Racing	On-course venue services, trackside operations and radio recoveries	7,199	6,874	-	-
New Zealand Metropolitan Racing Club (Inc)	Loan for construction of stables at Addington Raceway	-	95	6,094	6,094
RACE Inc	Working capital facility	105	114	2,991	2,993
Whangarei Racing Club Incorporated	Loan for racetrack development at Ruakaka Racecourse	22	16	21	72

The transaction value of loans to clubs and codes outlined above represents the cash amounts drawn under each facility. The balance outstanding includes amounts drawn plus any capitalised or accrued interest at reporting date. Further details of loans and advances to related parties are outlined in Note 10.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2012

16. RELATED PARTIES continued

Compensation of key management personnel

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

	2012 NZ\$000	2011 NZ\$000
Salaries and other short-term employee benefits	3,066	3,257

The New Zealand Racing Board considers key management personnel as the Board members, the Chief Executive Officer, the Chief Financial Officer, and other members of the Executive (8 in total; 6 in total for 2011).

	As at 31 July 2012	As at 31 July 2011
Employees and remuneration for the year ended 31 July 2012		
The New Zealand Racing Board employed the following staff:		
Salaried full-time employees	348	332
Phonebet operators (Rostered shift work)	176	237
Hourly rate staff		
– branch staff	183	169
– other part-time	85	79
– casual	65	85
	857	902

A number of individuals employed by the New Zealand Racing Board received over \$100,000 in total remuneration including 'at risk' components, as explained below. The salary bands and number of employees within each band were as follows:

Total remuneration (\$000)	No. of employees as at 31 July 2012	No. of employees as at 31 July 2011
100–110	12	15
110–120	9	17
120–130	14	4
130–140	11	7
140–150	3	4
150–160	2	2
160–170	2	-
170–180	1	1
180–190	1	2
200–210	1	3
210–220	2	1
230–240	1	-
240–250	-	1
250–260	1	-
260–270	1	-
270–280	-	1
310–320	1	-
360–370	-	1
390–400	-	1
400–410	1	-
410–420	1	1
580–590	-	1
	64	62

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2012

16. RELATED PARTIES continued

The remuneration of some employees includes an 'at risk' component, the payment of which is dependent upon the 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 assessments of senior management performance against targets and measures and (4) recommendations to the full Board on the amounts of 'at risk' and components payable (if any) to individual senior managers. Total remuneration may include payments made to employees on termination of their pay and long service leave due to the employee. 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.

Transactions with entities in which key management personnel have an interest

Certain key management personnel have relevant interests in a number of entities with which the New Zealand Racing Board has transactions in the normal course of business. A number of the key management personnel of the New Zealand Racing Board are directors of other organisations with which the New Zealand Racing Board transacts.

Outlined below are the significant transactions with related parties:

Entity	Transaction	Transaction value		Balance outstanding		Relationship
		2012 NZ\$000	2011 NZ\$000	2012 NZ\$000	2011 NZ\$000	
Gadol Corporation Limited	Rental and associated payments for a property lease for a TAB outlet	142	120	-	-	Michael Stiasny, Former Chairman of the New Zealand Racing Board, is a director and shareholder of Gadol Corporation Ltd.
DNZ Property Group Limited	Rental and associated payments for a property lease for a TAB outlet	129	127	-	-	Michael Stiasny, Former Chairman of the New Zealand Racing Board, is a director of DNZ Property Group Ltd since 22 June 2010.
Racing Integrity Unit	Funding	3,783	254	262	-	Michael Stiasny, Former Chairman of the New Zealand Racing Board, is the Chairman of the Racing Integrity Unit.
	Accountancy, human resources and IT services	(83)	(30)	-	(6)	The New Zealand Racing Board provides accounting, human resources and IT services to the Racing Integrity Unit.
	Rental of Auckland Premises	(28)	(10)	-	(2)	The New Zealand Racing Board provides rental premises to the Racing Integrity Unit.
NZ Equine Industry Training Organisation Incorporated	Funding	160	190	-	-	Bill Colgan in his capacity as acting Chief Executive Officer of the New Zealand Racing Board, is a Board member of the NZ Equine Industry Training Organisation.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2012

16. RELATED PARTIES continued

Entity	Transaction	Transaction value		Balance outstanding		Relationship
		2012 NZ\$000	2011 NZ\$000	2012 NZ\$000	2011 NZ\$000	
NZ Equine Industry Training Organisation Incorporated	Accountancy services	(10)	(10)	-	(10)	The New Zealand Racing Board provides accounting and human resources services to the NZ Equine Industry Training Organisation.
	Rental of Auckland Premises	(3)	(2)	-	-	The New Zealand Racing Board provides rental premises to the NZ Equine Industry Training Organisation.
Massey University Partnership for Excellence	Funding	252	150	21	25	Bill Colgan in his capacity as acting Chief Executive Officer of the New Zealand Racing Board, is a Trustee of the Equine Trust, which administers the Partnership for Excellence.

17. BUDGET COMPARATIVE INFORMATION

Betting turnover for the year was \$1.62 billion, ahead of budget by \$25 million, or 1.6%. This resulted in Net Betting Revenue of \$238.4 million, ahead of the budgeted figure by \$6.3 million. The budgeted turnover represented a modest increase on the previous year that reflected the continuing pressure and uncertainty being felt within the New Zealand economy.

Within the different wagering streams, racing turnover was \$1.38 billion, just 0.4% short of the budgeted figure. However, within this figure the Tote component was \$29 million behind the budgeted figure, whilst the Fixed Odds component was \$22 million ahead of budget. This highlights the ongoing trend towards Fixed Odds products and is a reflection of the increased Fixed Odds offerings that were available during the year.

Sports Fixed Odds betting continued to grow during the year, a trend that has been established over a number of years. The Sports Fixed Odds turnover was \$244 million, up 14.2% on budget and 28.7% up on 2011.

The 2011 Rugby World Cup held in New Zealand in September and October was a major event in Sports Fixed Odds betting. Budget \$18 million and actual \$30 million.

Non-betting turnover also outperformed budget as follows:

- Interest income ahead of budget by \$0.5 million reflects more available cash throughout the year and better than expected deposit rates.
- International racing fees ahead of budget by \$2.3 million due settlement with ATO on Australian withholding tax.
- Sale of TV rights of \$0.9 million (no budget).

The turnover variances noted above plus the sum of smaller variances not separately explained, realised a total positive variance of just over \$10 million in Total revenue.

Operating expenses were \$7.7 million more than budgeted.

The major negative variances that contributed were Employee costs (\$3.5 million), Communication costs (\$1.7 million), Overseas racing rights (\$0.9 million) and Retail fees (\$1 million). Employee and communication costs were related to new initiatives and new contracts being entered into. Overseas racing rights and Retail fees are directly related to the increased level of turnover described above. Depreciation and other expenses were below budget which partially offset these negative variances.

Class 4 Gaming operations are included in the New Zealand Racing Board for the first time. Overall the Class 4 operation realised a net return of \$6.8 million against a budget of \$6.3 million. Gaming distributions to external bodies by way of grant totalling \$238 thousand was significantly lower than the budget of \$1.1 million due to the lack of eligible applications received. The surplus will be carried forward to the following year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2012

18. ACTUAL COMPARATIVE INFORMATION

(a) Other income

The key driver of improvement in Other Income relative to the prior year was the introduction of the Gaming operations. Total revenue from Gaming Machine Proceeds was \$15 million compared to Nil revenue in the previous year.

(b) Software impairment

In 2011, the New Zealand Racing Board recorded \$3.2 million of impairment in relation to internally generated software development. In August 2011 the Helix wagering system replacement project was halted to enable a comprehensive review in conjunction with PricewaterhouseCoopers. The result of that review is that the Helix project will not proceed and the software was considered to be fundamentally impaired. Subsequently, associated hardware that was able to be re-used within the business was re-allocated and capitalised. The remaining Helix work in progress is unable to be re-used and has been fully impaired (\$10.9 million) in the 2012 financial statements.

(c) Distributions to external bodies funded by Gaming

In 2012 \$238,000 of Gaming net proceeds were distributed to third party external bodies in line with the New Zealand Racing Board's distribution policy. Total distributions to external bodies in 2011 were Nil as Gaming operations had not commenced.

(d) Fixed, variable, and market share code funding

The 2012 code funding distribution amounts differ materially from the prior year due to a change in the way code funding is applied. From 1 August 2012, code funding is applied throughout the year on a fixed funding basis only. Market share and variable funding mechanisms were disestablished in order to provide the three racing codes with greater certainty of cash flows.

(e) Research and integrity funding

Research and integrity funding has increased relative to the 2011 year mainly due to an increase in funding for the Racing Integrity Unit. The 2011 funding supported the Racing Integrity Unit from inception in February 2011 until July 2011 (\$2.4 million) whereas the current year financial contribution (\$4 million) covers a 12 month period.

(f) Gaming activity funding

Net distributions to codes from Gaming activity were \$3.5 million in 2012. This varies significantly from the prior year when Gaming operations had not commenced and no distributions were made.

19. NATURE OF RESERVES

General Reserve

The general reserve accommodates appropriations for general purposes rather than for a specific item of future loss or expense. Distributions from the general reserve are only made to the Racing Codes.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2012

20. FUNDING TO THE RACING INDUSTRY

	Note	Actual 2012 NZ\$000	Budget 2012 NZ\$000 (Unaudited)	Actual 2011 NZ\$000
(a) Funding generated by the New Zealand Racing Board				
Betting turnover (including GST)	1(a)	1,622,363	1,597,169	1,533,401
Dividends and betting deductions (including GST)	1(b)	(1,383,942)	(1,365,137)	(1,305,244)
Interest and other income (excluding GST)	1(c) / 1(d)	63,460	58,955	45,590
Operating expenses (excluding GST)	2	(163,568)	(155,900)	(146,716)
Software impairment		(11,054)	-	(3,200)
NET RETURN BEFORE INDUSTRY EXPENDITURE AND DISTRIBUTIONS		127,259	135,087	123,831
(b) On-course projects and other expenditure funded by the New Zealand Racing Board from net return				
ON-COURSE PROJECTS				
Customer research studies		112	110	113
Destination Summer Holiday Racing		396	400	387
On-course big screens		335	437	272
Christmas at the Races		362	300	375
Other on-course projects		675	578	601
OTHER EXPENDITURE				
Club loan fair value adjustments		(389)	(331)	(309)
Synthetic track development		-	-	(1)
Other		-	-	77
TOTAL ON-COURSE PROJECTS AND OTHER EXPENDITURE FUNDED		1,491	1,494	1,515
Distributions to external bodies funded by Gaming				
Distributions to external bodies		846	1,101	-
TOTAL DISTRIBUTIONS TO EXTERNAL BODIES		846	1,101	-
TOTAL ON-COURSE PROJECTS AND DISTRIBUTIONS TO EXTERNAL BODIES		2,337	2,595	1,515

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2012

20. FUNDING TO THE RACING INDUSTRY continued

	Note	Actual 2012 NZ\$000	Budget 2012 NZ\$000 (Unaudited)	Actual 2011 NZ\$000
(c) Funding applied by the New Zealand Racing Board from surplus available for distribution and reserves				
DISTRIBUTIONS TO THE RACING INDUSTRY				
Fixed code funding		123,695	121,637	85,000
Domestic market share code funding – interim		-	-	1,167
Domestic market share code funding – final		-	-	-
TOTAL CODE DISTRIBUTIONS		123,695	121,637	86,167
VARIABLE CODE FUNDING				
Export commissions paid	16	-	-	18,561
Fixed odds betting product payment	16	-	-	5,054
Industry interest paid on code liability balances	16	-	-	-
On-course commission payments	16	-	-	10,483
Friday Greyhound Racing	16	-	-	2,270
TOTAL VARIABLE CODE FUNDING		-	-	36,368
RESEARCH AND INTEGRITY FUNDING				
Racing laboratory services		1,082	997	983
Research, training and education		263	362	415
Other industry expenses		5,464	5,179	2,422
TOTAL RESEARCH AND INTEGRITY FUNDING		6,809	6,538	3,820
GAMING ACTIVITY FUNDING				
Distribution to Codes		5,973	4,404	-
TOTAL GAMING ACTIVITY FUNDING		5,973	4,404	-
TOTAL FUNDING	16	136,477	132,579	126,355
Funded from:				
Surplus available for distribution		136,477	132,579	126,355
General reserve		-	-	-
TOTAL FUNDING	16	136,477	132,579	126,355
(d) Total funding applied				
TOTAL ON-COURSE PROJECTS AND DISTRIBUTIONS TO EXTERNAL BODIES	20(b)	2,337	2,595	1,515
TOTAL FUNDING FROM SURPLUS AVAILABLE FOR DISTRIBUTION AND RESERVES	20(c)	136,477	132,579	126,355
TOTAL FUNDING APPLIED		138,814	135,174	127,870
(e) Funding sources				
Code funding		123,695	121,637	122,535
Oncourse projects and distribution to external bodies		2,337	2,595	1,515
Racing laboratory services		1,082	997	983
Research, training and education		263	362	415
Other industry expenses		5,464	5,179	2,422
Funding from wagering activities		132,841	130,770	127,870
Funding from gaming activities		5,973	4,404	-
Total funding applied		138,814	135,174	127,870

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2012

21. GAMING DISTRIBUTION RESULTS

	Note	Actual 2012 NZ\$000	Budget 2012 NZ\$000 (Unaudited)	Actual 2011 NZ\$000
Gaming business revenue	1(c),(d)	15,074	14,435	-
Gaming business operating expenses	2(c)	(8,240)	(8,341)	-
NET CONTRIBUTIONS		6,834	6,094	-
DISTRIBUTIONS				
GAMING DISTRIBUTIONS (paid/payable)		6,834	6,094	-

22. STATEMENT OF CONTINGENT LIABILITIES

(a) Guarantees

On 5 February 2009, the New Zealand Board provided a guarantee to the Bank of New Zealand in relation to Racing at Awapuni, Otaki and Trentham Combined Enterprises Incorporated (RACE Inc) to the value of \$8.8 million. New Zealand Thoroughbred Racing Incorporated have provided a back-to-back guarantee to the New Zealand Racing Board covering the amounts guaranteed to Bank of New Zealand.

(b) Litigation

The New Zealand Racing Board is defending a number of minor actions at balance date. While the liability is not admitted, if the defence against the action is unsuccessful it is possible fines and legal costs would be payable. The New Zealand Racing Board does not expect the outcome of any actions to have a material effect on its financial position and no liability is recognised.



Independent Auditors' Report to the members of the New Zealand Racing Board

Report on the Financial Statements

We have audited the financial statements of the New Zealand Racing Board on pages 36 to 71, which comprise the statement of financial position as at 31 July 2012, the income statement, statement of comprehensive income and the statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information.

Board Members' Responsibility for the Financial Statements

The Board Members are responsible for the preparation and fair presentation of financial statements in accordance with generally accepted accounting practice in New Zealand and for such internal controls as Board Members determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal controls relevant to the New Zealand Racing Board's preparation of financial statements that present fairly the matters to which they relate, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the New Zealand Racing Board's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

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

We have no relationship with, or interests in, the New Zealand Racing Board other than in our capacities as auditors and providers of advisory services in respect of the replacement wagering system. These services have not impaired our independence as auditors of the New Zealand Racing Board.

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AUDIT REPORT



Opinion

In our opinion, the financial statements on pages 36 to 71:

- (i) comply with generally accepted accounting practice in New Zealand;
- (ii) comply with International Financial Reporting Standards; and
- (iii) present fairly, in all material respects, the financial position of the New Zealand Racing Board as at 31 July 2012, and its financial performance and cash flows for the year ended on that date.

Restriction on Distribution or Use

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

A handwritten signature in black ink, appearing to read 'Priscilla Haslopas'.

Chartered Accountants
17 October 2012

Wellington

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CHRIS BAYLISS

Chief Executive Officer

GLEN BROOMHALL

General Manager Broadcasting

MONIQUE CAIRNS

General Manager Strategy, Marketing and Corporate Affairs

STEWART McROBIE

Chief Financial Officer

FLEUR MURRAY

General Manager People and Culture

COLIN PHILP

Chief Information Officer

BRUCE PROUDFOOT

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