

ANNUAL REPORT 2013





THE VISION OF THE NZ RACING BOARD IS TO BE THE BEST ENTERTAINMENT BUSINESS FOR NEW ZEALAND



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NZ RACING BOARD TREND SUMMARY

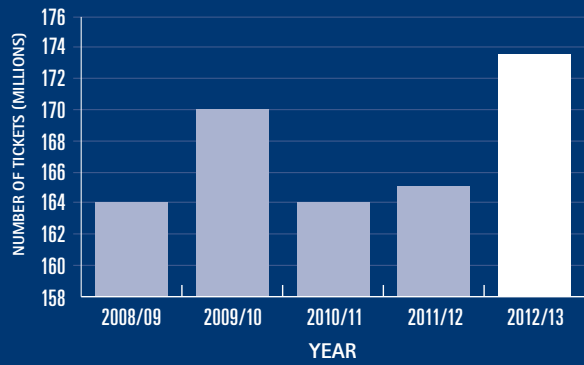
FIVE YEAR FINANCIAL SUMMARY

FULL YEAR (\$M)	2008/09	2009/10	2010/11	2011/12	2012/13
STATEMENT OF PROFIT OR LOSS					
Total turnover	1,513.1	1,582.0	1,531.6	1,814.0	1,956.8
Net betting margin	15.0%	14.8%	14.7%	14.4%	14.2%
Total income	259.0	268.3	268.3	293.1	304.5
Turnover related expenses	47.2	47.4	43.9	42.6	44.7
Operating expenses	92.7	92.5	100.5	123.2	115.7
Operating expenses/total income	35.8%	34.5%	37.5%	42.0%	38.0%
Net profit before distributions	119.1	128.4	123.8	127.3	144.1
Betting net profit before distributions	119.1	128.4	123.8	120.4	135.3
Gaming net profit before distributions	-	-	-	6.8	8.8
Distributions and industry payments - Racing	137.5	123.7	126.4	135.5	142.0
Sporting grants and distributions to sporting bodies	2.3	3.4	3.0	4.2	4.2
STATEMENT OF FINANCIAL POSITION					
Total assets	128.6	131.8	128.4	125.5	121.7
Current assets	58.7	62.4	52.1	66.6	70.9
Current liabilities	46.4	46.1	46.7	53.6	50.0
Current assets to current liabilities ratio	1.3	1.4	1.1	1.2	1.4
Equity	81.5	84.8	80.8	69.3	69.5
Return on average equity	129%	154%	150%	170%	208%

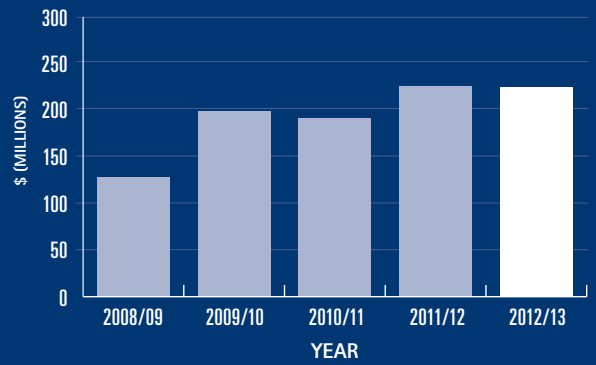
FIVE YEAR RACES SUMMARY

	2008/09	2009/10	2010/11	2011/12	2012/13
Greyhound	4,149	4,271	4,879	5,024	5,288
Harness	2,822	2,767	2,715	2,675	2,745
Thoroughbred	3,088	3,068	3,052	3,061	3,007
TOTAL	10,059	10,106	10,646	10,760	11,040
Imported	25,506	35,323	42,280	48,405	58,141
Exported	4,807	6,790	10,509	10,561	10,467

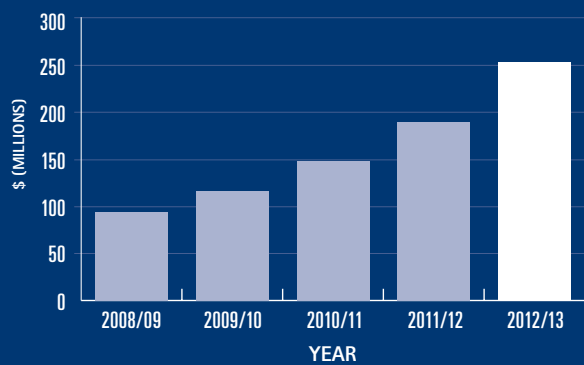
TICKETS ISSUED



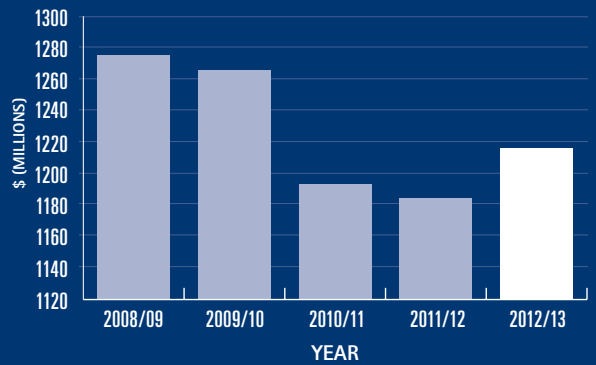
SPORTS FIXED ODDS BETTING



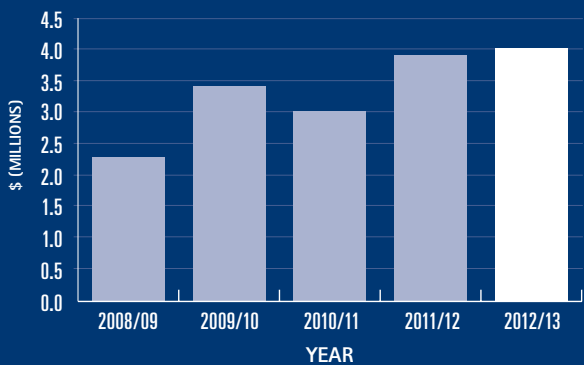
RACING FIXED ODDS BETTING



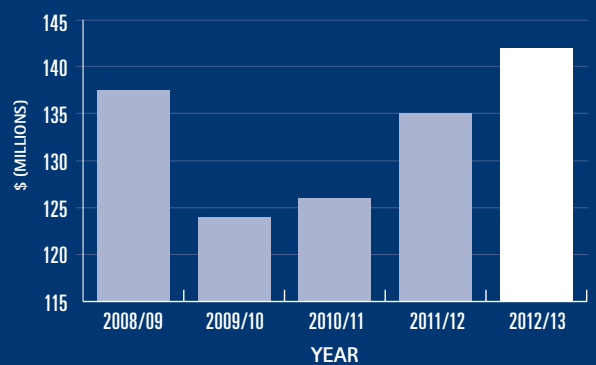
RACING TOTE



SPORTS LEVIES DISTRIBUTED



DISTRIBUTION AND INDUSTRY PAYMENTS – RACING



AT A GLANCE

BENEFIT

The NZ Racing Board exists to benefit New Zealanders

SURPLUSES

The NZ Racing Board returns all surpluses to the industry via the three Racing Codes and 33 National Sports Organisations

\$142.0 MILLION

We distributed \$142.0 million to the racing industry in 2012/13

0.9%

The NZ Racing Board contributes 0.9% of GDP

690

We are one of the largest retailers in New Zealand with more than 690 outlets

LARGEST

And one of the largest live broadcasters in New Zealand through Trackside TV and TAB TV

ABOUT THE NZ RACING BOARD

The New Zealand Racing Board is a statutory body that exists to lead, promote and enhance our industry; in doing so we support the communities of New Zealand. Our industry partners are:

- the three Racing Codes
- the Combined Racing Industry Group (CRIG), which comprises the Chief Executives and Chairpersons of the Boards of the NZ Racing Board, NZ Thoroughbred Racing, Harness Racing NZ and Greyhound Racing NZ
- the Racing Integrity Unit and the Judicial Control Authority
- recognised racing industry organisations including NZ Thoroughbred Racehorse Owners Federation, NZ Thoroughbred Breeders Association, NZ Trainers Association, NZ Jockeys Association, NZ Standardbred Breeders Association, NZ Trotting Owners Association, NZ Harness Racing Trainers Association and every Racing Club registered with a respective Racing Code
- central and local Government

The NZ Racing Board also consults with the 33 National Sports Organisations that derive income from the bets New Zealanders place on domestic and international sports.

The NZ Racing Board has a proud legacy, stretching back to 1951 when the Totalisator Agency Board (TAB) was established as the sole betting operator in New Zealand. This was an internationally significant development as the TAB was the first off-course totalisator service in the world. Throughout that decade the TAB became the fastest growing business in New Zealand's history and, over 60 years later, its early growth record remains unbeaten.

As well as leading and promoting the industry domestically, the NZ Racing Board plays a significant role in promoting New Zealand racing to overseas markets. In the past 12 months the NZ Racing Board has exported broadcast coverage of New Zealand races to Australia, UK, France, Singapore, North America, South Africa and the Middle East. This year, broadcasting rights for 'Kiwi Bred', a series produced and broadcast by Trackside to profile the New Zealand Thoroughbred industry, were sold to Australia, Dubai and Singapore. Import on racing and sport is also now a significant part of our business, with increasing numbers of New Zealanders betting on international racing and sports.

Sports betting was introduced by the TAB in 1996 and is now a big part of our business. Grass roots sports are supported through the bets New Zealanders place on domestic and international sports events. The TAB is only permitted to take bets on sports that are represented by National Sports Organisations approved by Sport NZ. We currently distribute a percentage of our turnover and margin in levies to 33 National Sporting Organisations each year. The sport that benefited most from the bets New Zealanders placed in 2012/13 was Basketball, which overtook Rugby as the number one betting sport for New Zealanders.

AT A GLANCE

TAB

The TAB is the betting arm of the NZ Racing Board and the sole provider of racing and sports betting in New Zealand

99%

99% of New Zealanders recognise the TAB brand

134,000

TAB has 134,000 account holders

0.83

0.83 of every dollar bet through the TAB was returned to customers in 2012/13

2%

Runs 341 out of the total 17,500 gaming machines in New Zealand

MINIMISE

Works closely with Problem Gambling Associations to minimise harm from gambling

We know from extensive research carried out this year that the TAB is one of the most recognised brands in New Zealand, with over 99% recall amongst members of the public. The fact that their associations are not always positive presents us with a challenge and an opportunity to modernise and grow the brand's appeal to new customers.

Over 50 years after the creation of the TAB, the NZ Racing Board was established by the Racing Act 2003. The Act, which governs us today, states that the primary purpose of the NZ Racing Board is to provide effective governance for the racing industry, run a profitable betting business, promote and enhance the industry and generate long term profit for the benefit of racing.

Today the NZ Racing Board supports betting on more than 69,000 domestic and imported racing events each season, and the number of domestic and international sporting events on which Kiwis can bet is rapidly growing. In 2012/13 the NZ Racing Board returned 83 cents of every dollar bet in New Zealand to our customers.

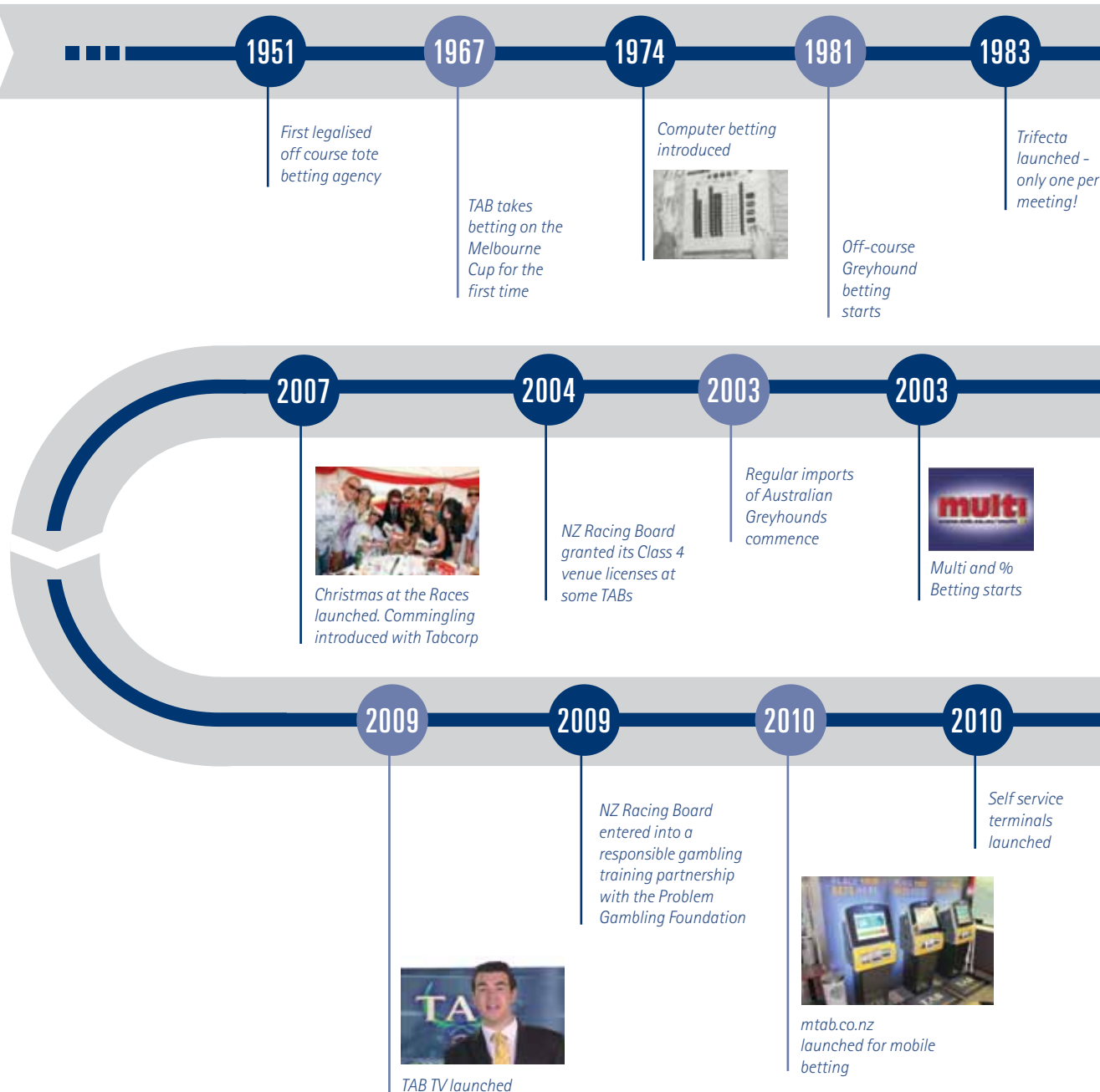
Through our betting arm, the TAB, we also operate 341 gaming machines in 31 sites across New Zealand. Around 91 cents of every dollar spent on gaming is returned to the customer. Following the payment of duties, taxes, levies and operating expenses approximately 40% of gross profit is distributed to the community via our Authorised Purposes. Although the NZ Racing Board is a relatively small gaming machine operator, with responsibility for 341 out of the total 17,500 gaming machines in New Zealand, we pride ourselves on being one of the most responsible operators.

As well as promoting the excitement of racing and betting, the NZ Racing Board is concerned about the minority of people for whom this activity becomes a problem and engages in a range of harm minimisation initiatives. One of the NZ Racing Board's most important statutory functions is to prevent and minimise harm from gambling. This is achieved through ensuring robust measures and procedures are in place, providing information and advice on problem gambling and providing expert training to all staff who sell betting products and oversee the gaming machine areas of the business. We work closely with the Problem Gambling Foundation to ensure our policies, procedures and compliance are best in class.

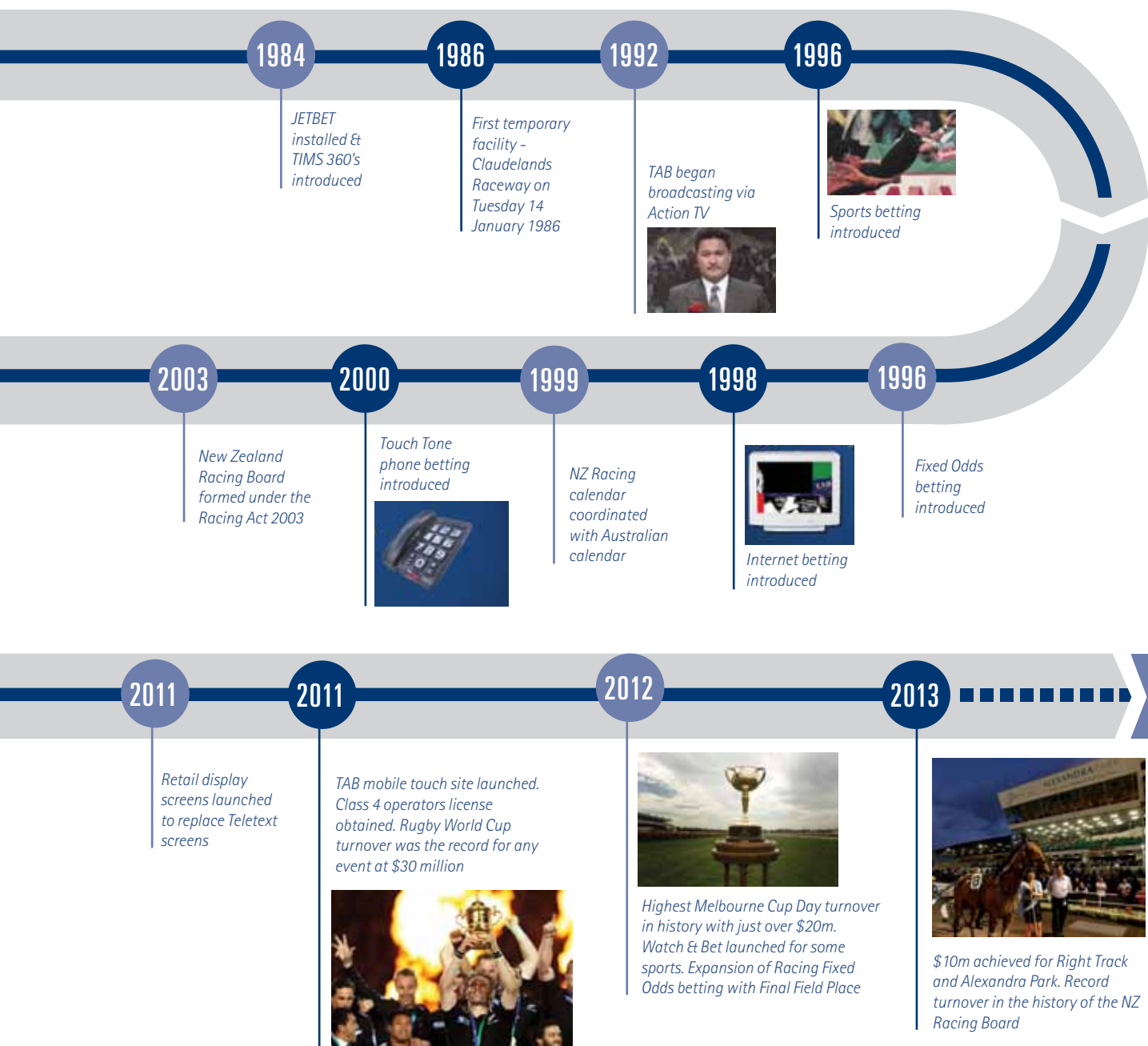
In addition we offer problem gambling workshops to our industry partners to promote responsible betting.

The role of the NZ Racing Board to lead, support and promote the racing industry is not only a statutory obligation; it is a privilege. Our success depends upon collaboration, cooperation and commitment to shared goals across the industry.

KEY EVENTS IN OUR HISTORY



THE NZ RACING BOARD HAS A PROUD LEGACY, STRETCHING BACK TO 1951 WHEN THE TOTALISATOR AGENCY BOARD (TAB) WAS ESTABLISHED AS THE SOLE BETTING OPERATOR IN NEW ZEALAND



BOARD MEMBERS

GLENDA HUGHES

INDEPENDENT CHAIRPERSON | BA

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

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.

MAURO BARSÌ

GREYHOUND CODE NOMINEE | LLM(HONS), BA

He has spent the last 3 years leading a business transformation project including rescuing the recruitment and retention functions of the business, reinvigorating the product offering, and managing the EMA's risk profile. He currently leads one of the major business units within the EMA and is also involved in helping shape the EMA's Employment Law activity, lobbying and policy work. He regularly represents the EMA in a variety of activities and is often requested as a speaker for industry events and conferences.

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

ALISTAIR RYAN

INDEPENDENT MEMBER | MCOM, CA

Alistair Ryan has extensive director experience in both public and private companies 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, Alistair was a Corporate Services Partner with international accounting firm Ernst & Young, based in Auckland. Alistair holds a 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.

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 Innova Products Limited and Rangitira Forests Limited. Greg has been active in the thoroughbred industry for more than 20 years as a breeder and racehorse owner. Greg has a BCA in Accounting, Economics and Commercial Law. He also holds a Graduate Diploma in Rural Studies.

GRAHAM COONEY

INDEPENDENT MEMBER

Graham Cooney is an experienced director across a number of sporting business and education institutions. He is a founding director and now Chairman of Blue Sky Meats NZ Limited (since 2008) and has been a board member of the New Zealand Rugby Union since 2010. Graham participates in the racing industry through his breeding and racing of a few standardbred horses.

ROD CROON

HARNESS CODE NOMINEE

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



FROM LEFT: Alistair Ryan, Independent Member, Graham Cooney, Independent Member, Greg McCarthy, Thoroughbred Code nominee, Glenda Hughes, Independent Chair, Rod Croon, Harness Code nominee, Liz Dawson, Independent Member, Mauro Barsi, Greyhound Code nominee.

BOARD MEMBERS' INTERESTS REGISTER

Board Members, as at 1 August 2013

GLEENDA HUGHES

Clubs New Zealand Incorporated,
Client of Glenda Hughes

LIZ DAWSON

Hurricanes Limited, Director
Wellington Regional Stadium Trust, Trustee
New Zealand Olympic Committee, Board Member
Hurricanes Investment Limited Partnership, Director
Forsyth Morison Limited, Director

ALISTAIR RYAN

Kingfish Limited, Chair
Barramundi Limited, Chair
Marlin Global Limited, Chair
Metlifecare Limited, Director
Moa Group Limited, Director
Christchurch Casinos Limited, Director
Auditor Regulation Advisory Group, Member

GREG MCCARTHY

New Zealand Thoroughbred Racing Incorporated,
Board Member
Thoroughbred ownership interests
New Zealand Thoroughbred Breeders' Association,
Member
New Zealand Thoroughbred Racehorse Owners'
Federation, Member
Innova Products Limited, Director
Rangitira Forests Limited, Director
Spring Creek Estate Limited, Director
Sutton McCarthy Limited, Director

GRAHAM COONEY

Blue Sky Meats (NZ) Ltd, Chairman
New Zealand Rugby Union, Board Member
Preston Russell Law, Independent Chair
Gen-I Southland, Bay of Plenty, Auckland, Director
Southland Standardbred Breeders Association,
Committee Member
Standardbred ownership and breeding interests

MAURO BARSİ

Greyhound Racing New Zealand, Board Member
Membership & Marketing Manager / Corporate Legal
Counsel
EMA

ROD CROON

Croon Bloodstock Limited, Managing Director
Standardbred ownership and breeding interests
Life member Auckland Trotting Club
North Island Standardbred Breeders Association
member

Departing Members, as at 31 July 2013

DR ALAN JACKSON (CHAIRMAN)

Broadway Racing Breeding Partnership, Director
Broadway Trust, Director
Broadway Operations, Director
Burnet Jackson Partnership, Partner

As a business and an industry in 2012/13 we kicked back. Our run has started

REPORT FROM THE BOARD

On August 1, 2013 – the start of Glenda's term as Chair of the New Zealand Racing Board – a national television current affairs programme screened a story celebrating horses' birthday.

In it, trainer Frank Ritchie was asked why his legendary galloper Bonecrusher, who had just turned 31, was so special – even today.

Frank's response was matter-of-fact.

"He had the fighting quality, he just never gave in. There was many a time he was pretty much beaten and he just kicked back."

It's a sentiment that embodies the spirit of racing in New Zealand, both in terms of where we have come from and where we must seek to take the industry.

Today, racing still holds a special place in the hearts and minds of New Zealanders. However, we're working in a tough environment and facing major and unique challenges.

We're far from beaten as an industry, but we've been off the pace for too long. We need to kick back and make our run now.

We have to change to capitalise on the opportunities we have to grow the racing industry in New Zealand, promote betting on racing and sport and increase returns to our stakeholders – the organisations and participants that depend on the NZ Racing Board to deliver success and prosperity for the thousands of Kiwis involved nationwide.

But we've got some serious issues to deal with, and we must tackle them now or watch our industry fall further behind.

The Board's primary focus in 2012/13 was to work closely alongside the management team, led by Chief Executive Chris Bayliss, in taking an in-depth look at every aspect of the business with a view to understanding exactly what we need to do to deliver the substantial strategic change needed to lift potential returns for stakeholders.

Our roadmap for the way forward – the 2013–16 Statement of Intent – represents the clearest understanding yet of what we must do to lead the growth of the industry.

It's been a huge undertaking to rethink and rebuild the business with a view to the future, all the while ensuring we were optimising business performance during the year.

Our results in 2012/13 show we have the momentum and trajectory needed to achieve our ambitions.

As a business and an industry in 2012/13 we kicked back. Our run has started.

IT'S BEEN A HUGE UNDERTAKING TO RETHINK AND REBUILD THE BUSINESS WITH A VIEW TO THE FUTURE

STRONG YEAR, STRONGER FOUNDATIONS

The NZ Racing Board's performance was positive in 2012/13, with strong results across the business achieving or exceeding expectations. Record turnover of \$1.957 billion was \$142.8 million, or 7.9%, up on the previous year. This resulted in a total distribution of \$142.0 million to the country's three Racing Codes and racing industry.

This was a pleasing result, reflecting an uplift of distribution to stakeholders of \$6.5 million on the year before. It was also a clear endorsement of the decision of the Board and management in December to reforecast three-year profit distribution goals in our revised 2012–15 Statement of Intent, first increasing the target from \$134.0 million to \$135.0 million from betting operations in 2012/13.

As a result, 2012/13 saw the NZ Racing Board generate a record distribution for racing and sport in New Zealand, as well as a further \$3.8 million paid in fees to the country's National Sporting Organisations.

The business and its stakeholders should be proud of these achievements.

CHECKS AND BALANCES

While the year was successful, 2012/13 also held its fair share of challenges.

Broadly speaking, economic conditions domestically continued to be uncertain. We also saw a distinct softening of sentiment in our key overseas markets, notably Australia.

We continue to see pressure on the domestic tote, our most important and valuable product, though this has been offset by good gains in offshore tote betting. A marked customer preference toward Fixed Odds betting on racing has also been significant. While this has driven increased turnover, it comes at a lower margin than tote betting.

In sports, we saw just how important the Rugby World Cup 2011 was to last year's results. Turnover of \$30.0 million on the tournament contributed \$3.3 million in net betting revenue in

2011/12, showing the value of major sporting events. To deliver the 2012/13 result in the absence of a major event was pleasing, as was a record turnover result of \$20.1 million on what is traditionally our biggest day of the year – the first Tuesday in November, Melbourne Cup Day.

Although we operate a statutory monopoly in New Zealand, we face increasing and aggressive competition not only for discretionary spend across all entertainment-related sectors but from other operators in the gambling and betting sector at home and offshore.

In particular, offshore leakage – the situation which has resulted from the increased use of technology and the increased presence of overseas operators in the New Zealand internet space – continues to be a major issue for the business, industry and government. These operators use our products but do not contribute in any way to the New Zealand community, they do not pay anything to the providers of the New Zealand products they offer wagering on. Our racing codes and sports miss out on fair returns, problem gambling receives no levy and the government misses out on its taxes. The modern and fast-changing global trading environment that recognises no boundaries with the growth of the Internet, needs to be addressed as a matter of highest priority.

It is estimated these overseas operators are taking more than \$300 million out of the New Zealand market annually.

Furthermore, offshore providers offer betting on our products to their international customers, which translates to additional losses to the Kiwi Racing and sporting codes. They are literally profiting from an industry and paying nothing in return.

As an industry that must fight for every dollar it earns, we will not let this situation continue unchecked and unchallenged.

On top of all of this, we even had the weather gods to contend with in the second half of the year, first with drought and then flood conditions. This was a key contributor towards the abandonment of 12 race meetings across the three Codes nationwide.

Despite these challenges, the business has delivered growth. But the biggest highlight of 2012/13 was the formulation and introduction of an ambitious and achievable plan for the business and the industry that will be a game-changer.

GETTING UP TO SPEED

Changing the fortunes of the industry requires us to make changes to the way we do business. With the full support of the Board, Chris Bayliss has led a sweeping review and realignment of current operations to set the stage for delivering the sustainable growth the industry needs.

Key to this has been lifting the metabolic rate of the business, the pace at which we're able to sort issues out and take advantage of opportunities.

In this sense the NZ Racing Board needs to be fitter, faster and stronger. We need to have a solid training plan, the best equipment, experienced and knowledgeable coaches. We need goals that challenge us and inspire us to achieve.

With our 2013–16 Statement of Intent we have the plan. The match-fitness of the business improved in leaps and bounds in 2012/13 and we're ready to get the results.

This will require the buy-in of everyone involved in the business and the industry. As any athlete who strives for excellence knows, getting results means sacrifice, commitment and often a fair amount of pain along the way.

This is where we find ourselves today. Together, we have much to do and changes to make. Quite simply, we must get things done. In the past there have been many false starts for New Zealand racing but we're now ready and able to run the race of our lives.

HANDS ON THE REINS

I am delighted to take up a key governance role within a business and industry I have long had a personal and professional interest in.

Although I have only just commenced my term as Chair, I am impressed by the calibre of the members of the Board and management team, especially their appreciation of the need for consensus and collaboration founded on best-practice governance and leadership.

Mauro Barsi, Graham Cooney, Rod Croon, Liz Dawson, Greg McCarthy and Alistair Ryan all have exceptional professional backgrounds, as well as an absolute commitment to growing the industry.

Liz deserves special acknowledgment for more than six years' service on the Board. Liz, who will step down soon, has been an invaluable member, providing crucial governance continuity in 2012/13, in particular, when six new additions were made to the seven-member Board.

I would also like to acknowledge the work of Alistair Ryan, who stepped up admirably to lead the Board as Deputy Chairman following the departure of Dr Alan Jackson as Chairman in March 2013.

Critically, our focus on consensus and collaboration extends to our relationships with stakeholders. Without the involvement and consensus of the entire industry, we cannot achieve the sustainable growth we all need to deliver on behalf of the thousands of Kiwis involved in this incredibly important sector.

We must understand that racing in New Zealand is more than the sum of its parts – we're all in it together and only by working together will we get results.

The Board and I are looking forward to another successful year for the business and for racing. We've got some ground to make up but it's clear we're already hitting our stride.

To describe where our industry is and where we must take it, I recall what was arguably New Zealand's greatest racing moment – Kiwi's win in the 1983 Melbourne Cup.

At the tail of the field on the final turn at Flemington, Snow Lupton's stockhorse from Waverley came from almost nowhere to blitz the field.

The caller's words that day embody the ambitions of all of us involved in the New Zealand racing industry: "Kiwi's flying – might beat them all!"

Indeed.



Glenda Hughes
Chair, NZ Racing Board



**IT'S BEEN A HUGE UNDERTAKING TO RETHINK AND REBUILD
THE BUSINESS WITH A VIEW TO THE FUTURE**

REPORT FROM THE EXECUTIVE LEADERSHIP

Our overarching strategy is both evolutionary and revolutionary and shows we have the momentum and trajectory to achieve sustainable growth

Often the word 'change' elicits fear, resistance and resentment. To me, change represents opportunity.

To say that the New Zealand Racing Board and the country's racing and betting industry requires change is an understatement. Put simply, we have to change. There is no other way forward.

In this respect there is cause for optimism.

The focus of my first 12 months as Chief Executive has been to clearly understand and agree, in tandem with what was essentially a new Board, exactly what the business needed to achieve to deliver better outcomes for our stakeholders – the three Codes of Thoroughbred, Harness and Greyhound racing, and the tens of thousands of Kiwis who depend on the industry for their livelihoods.

Change for the sake of change will never create success. Rather, change requires planning and purpose – a clear understanding of where we are now, where we need to go and how we'll get there.

Preparing the NZ Racing Board for real change involved an in-depth examination of every facet of what is a complex business and subject to a wide range of influences internally and externally. The first phase of this examination was 'Positioning for Growth' – essentially pausing current and planned activity to drill down on all areas of the operation and expenditure across the organisation to allow us to make better decisions regarding future investment, direction and vision for the industry.

By necessity, what resulted in 2012/13 was a transitional phase for the NZ Racing Board as we set the stage to fundamentally 'reboot' the business by 'Planning for Growth', focusing on setting the requisite foundations to ensure we can affect the change required by racing in New Zealand.

No stone has been left unturned at every level of the business in developing our plan to revitalise racing in New Zealand. Our 2013–16 Statement of Intent represents a bold but realistic and achievable plan to deliver outcomes that will restore pride and prosperity.

NO STONE HAS BEEN LEFT UNTURNED AT EVERY LEVEL OF THE BUSINESS IN DEVELOPING OUR PLAN TO REVITALISE RACING IN NEW ZEALAND



FROM LEFT: Glenn Patrick, *Executive GM TAB*, Monique Cairns, *Executive GM Strategy and Transformation*, Colin Philp, *Chief Information Officer*, Stewart McRobie, *Chief Financial Officer*, Emma Scott, *Chief Talent Officer*, Martin Saunders, *Chief Operating Officer*, Chris Bayliss, *Chief Executive*.

Our overarching strategy is both evolutionary and revolutionary and shows we have the momentum and trajectory to achieve sustainable growth.

Locking in this wide-ranging plan has demanded time and a strongly commercial approach to the way we run the business on behalf of our stakeholders. My first clear observation of the NZ Racing Board was that as a business it lacked a clear corporate direction focused on delivering outcomes and results – a commercial edge.

It is true that we operate in a monopoly situation in New Zealand with regards to sports and race betting. But there has been little recognition of the need for a clearly defined and measurable strategy to change and grow in what is an increasingly competitive environment.

For too long the industry has been held back by underinvestment and factionalism. Its ability to capitalise on opportunities for growth has been stymied by decades of conservatism and a lack of desire and commitment to make change.

Issues have been debated, strategies planned, tactics defined and outcomes set. However, the hindrance has been a lack of appetite, agreement and consensus to deliver. Plans for change have, as result, been filed away in the 'too hard basket', never to see the light of day. As a result, we've fallen behind where the business and industry need to be.

That changes now. I am a firm believer in what gets measured gets done.

Establishing exactly what we need to do involved clear recognition of the constraints we face – in areas such as IT, capabilities and the environment in which we operate. This recognition has caused me to recalibrate and reset timelines around the goals I set out to achieve. But my expectation remains unchanged – to deliver sustainable prosperity for the country's racing industry.

One of my first decisions was to reforecast profit distribution targets. As a result, the original 2012/13 target of \$134.0 million from betting operations was reforecast in January 2013 to \$135.0 million.

I'm delighted that the business rose to that challenge.

Record turnover of \$1.957 billion resulted in a surplus for distribution to the three Racing Codes and Racing industry of \$142.0 million.

But it is just the beginning. We must – and will – continue to set the bar ever higher for the business and our stakeholders to return racing to its rightful place in the New Zealand psyche.

SETTING THE FOUNDATIONS

Key to the development of our new corporate strategy has been the need to ensure the business has the 'match-fitness' to lead the way in the development of a strategic plan for New Zealand racing.

As a result, our top priority in 2012/13 was to get our own house in order. That has meant creating an ability to run 'today' better while planning for 'tomorrow', underpinned by high performance expectations and accountability.

We set out five pillars that would be necessary to provide the foundations for a change programme through an internal and external focus.

These 'Five Cs' – Culture, Capabilities, Customer, Community and Convergence – are the base for every aspect of change the business has undertaken.

CULTURE – THE DESIRE TO WIN

The future success of the NZ Racing Board and, ultimately, the racing industry is contingent on the engagement of our people.

As Chief Executive, creating a winning culture at the NZ Racing Board is more important to me than anything else. Without the right culture, our ambition to grow the business and the racing industry will not succeed.

In September 2012 we undertook the first survey of staff sentiment in more than a decade to better understand what needs to be done to improve staff engagement and performance. The results were sobering, with the total engagement score of 66.5% well below the recognised benchmark of 76.4%.

To gauge progress the survey was again conducted in July 2013, showing significant progress in this key area. In just 10 months the gap between where we were and where we need to be has closed markedly. In what was expected to be a three-year process to shift our engagement score to the benchmark, we halved the gap in under a year, with 70.9% of staff now engaged.

CAPABILITIES – INVESTING IN SUCCESS

Closely aligned to resetting our culture has been the rebuilding of the internal capabilities of the business to ensure our strategy can succeed.

'Upskilling' every facet of the business is integral to the long-term strategic objectives because without the right people, processes and systems in place we cannot achieve our longer-term ambitions for the industry.

THESE 'FIVE CS' – CULTURE, CAPABILITIES, CUSTOMER, COMMUNITY AND CONVERGENCE – ARE THE BASE FOR EVERY ASPECT OF CHANGE THE BUSINESS HAS UNDERTAKEN

There has been the need for considerable investment in this area given that the business has, historically, underspent on developing its own capabilities for decades. Restructuring costs in 2012/13 were \$2.6 million – a significant investment but one which is absolutely vital if we're to be successful.

During the year we completely rebuilt our finance and reporting function from the ground up, putting in place an effective system of people and processes to monitor and control costs across the business and allow for investment based on increased revenue and returns to the industry alongside leveraging what is a strong balance sheet.

The profitability of the TAB betting operation has increased despite changing customer preferences, primarily toward Fixed Odds betting, while we have also identified and implemented exciting new initiatives and products to deliver growth and expansion.

Our Information Technology operations, on which we are so incredibly dependent in this digital age but which have been neglected for so long, have been vastly improved, though much more work and investment is required to position the business even more competitively in a modern environment.

Our Broadcasting business unit, which continues to deliver top-notch racing coverage and information via our extensive network, is developing an exciting new strategy to enhance viewer experience and increase returns to the industry.

Our Sales and Distribution function, encompassing a huge and varied network of sales channels, has been streamlined and enhanced in response to what is a dynamic retail marketplace.

We have put in place governance procedures to deliver the best possible interface between management and the Board, as well as with industry stakeholders to ensure our functions and projects are aligned, agreed and have the best shot at success.

There has been unprecedented change internally. The upshot is a corporate strategy for the business which is both bold and achievable.

I am incredibly proud of our people. Change can often be difficult but I'm heartened by the positivity of this dedicated group and the commitment to getting results.

The business now has the capabilities and expertise required to drive success. It is an investment that will deliver the payback the industry needs.

CUSTOMER – RESPONSIVE AND INNOVATIVE

As in any business that competes for discretionary spend, we must always seek to improve the way we interact and engage with customers to ensure we're providing the best service possible.

Our channel mix continues to shift markedly to digital channels (online plus mobile), more than doubling their turnover share to 29% since 2008. Clearly, digital is the future of our offering to customers.

This shift led us to review our sales channels in 2012/13, notably resulting in our decision to consolidate our Phonebet operations into two centres. Phonebet is our highest cost-to-serve channel but has experienced declining year-on-year usage – approximately 10% each year since 2007.

With the decision to sell our Ellerslie building, it was decided to close the Auckland Phonebet centre and consolidate services at existing centres in Wellington and Christchurch, effective 1 October 2013. The purpose of this was three-fold: first, to respond to clear changes in customer preference; second, to reduce costs and allow for investment in growth channels such as digital with online enhancements, including mobile apps and self-service; and third, to maximise returns to the industry by reducing operational expenditure.

Our commitment to customer service is unwavering and the investment made will allow us to better transact with them using channels that best suit them now and into the future.

COMMUNITY – KNOWING WHO WE SERVE

No business of our size and scope can succeed without understanding the communities we serve.

Racing and sport define us as New Zealanders and the industry makes a massive economic and social contribution to the country.

In 2012/13 we have worked hard to enhance the reputation of the business as a betting provider and highlight the value and importance of the industry. We exist for New Zealand and that's a job we've taken to heart.

Be it in the major regions of Auckland, Waikato, Wellington, Canterbury and Otago, or the smaller regions and towns elsewhere, racing touches every Kiwi community in some way. The NZ Racing Board recognises its responsibility to these communities to lead the way in ensuring racing continues to make a positive contribution.

CONVERGENCE – HEADING IN THE SAME DIRECTION

In my first year as Chief Executive I have had the opportunity to talk at length with industry stakeholders and participants.

Be it at our series of nationwide roadshows with Minister for Racing Nathan Guy in October 2012, our first Annual General Meeting in seven years in December last year, in regular meetings with the Chief Executives and Chairs of the racing Codes and at the Codes' annual meetings, there is a common refrain – the industry has serious problems.

The reasons why are many, varied and complex. However, we all agree the industry requires increased investment and returns to grow.

That is the prime directive of the NZ Racing Board. But we cannot do it alone.

Growing the industry requires all stakeholders to be on the same page, to be heading in the same direction. This demands clear understanding of our roles and responsibilities, an agreed and aligned way forward and, importantly, recognition that there will be no substantive gain without some pain.

Positive change for the better will require a degree of sacrifice from all of us, but always with a view to the greater good if we are to shape the industry into something bigger and better. It demands time, consultation, consideration and convergence of thinking. We must put aside pre-conceived notions and agendas and get on with the task of growing the industry together.

I have been hugely impressed by the desire of all stakeholders to work toward this.

The first major step in this process was the development of the NZ Racing Board's corporate strategy. With this now in place and agreed by industry stakeholders, we can work toward aligning our plans to get results.

Therefore, our focus now shifts to leading the development of a cohesive plan for the industry as a whole, with recognition and understanding of our shared challenges and opportunities and an agreed set of imperatives, initiatives and outcomes.

IN FOR THE LONG RUN

Our five-year strategic framework has been devised to mitigate current threats and constraints while ensuring we are capable of capitalising on our opportunities.

The detail of this framework is fully explained in our 2013–16 Statement of Intent. Everyone across the business has played a part in its development; the industry has worked closely with us in bringing it to life. It is a plan we firmly believe will deliver the change racing in New Zealand needs. It is ambitious but achievable.

At its highest level, the 2013–16 Statement of Intent defines how we will grow returns across the industry by running our business even better and more innovatively.

With clear timelines, measures and outcomes, it is a plan that will form the basis of a new era for racing in New Zealand.

Already we have made incredible progress and there is so much more to come.

ON THE RIGHT TRACK

I am extremely proud of our achievements over the past 12 months as a business and as an industry.

I would like to thank our talented and committed members of the Board, who have been extraordinarily supportive and understanding of the need for change. We are fortunate to have a group of such influential people who understand the needs of the industry and who have brought their considerable commercial acumen to the table.

I am thankful to have a great team of senior executives and staff leading the charge. The passion and commitment of these talented people never ceases to amaze me and I'm certain we have the right people in the right place to get the right results.

I am also grateful to the Codes and the many people involved in racing. I've certainly never lacked for advice on what we need to do and I will continue to seek out and welcome that advice.

There is still a long way to travel but we're clearly on the right track.



Chris Bayliss
Chief Executive, NZ Racing Board



OFTEN THE WORD 'CHANGE' ELICITS FEAR, RESISTANCE AND RESENTMENT. TO ME, CHANGE REPRESENTS OPPORTUNITY



**RACING AND SPORTS DEFINE US AS
NEW ZEALANDERS**

OUR BUSINESS, INDUSTRY AND CATEGORY

AT A GLANCE

\$1.6 BILLION

New Zealand racing generates about 0.9% of GDP, around \$1.6 billion

52,000

Involves more than 52,000 New Zealanders

17,000

Creates about 17,000 full time jobs that generate more than \$679 million in salaries and wages

400

Provides facilities to more than 400 community groups

DOMESTIC RACING

Was dominated by domestic racing 20 years ago but today only 40% of our betting business comes from domestic racing

ANNUAL RETURN

Thoroughbred race horses owners receive an annual return of \$24 for every \$100 they invest in their animals

GAMBLING MARKET

In 1985 the TAB had 95% share of the gambling market in New Zealand; today it has a 14% share of the market

DOUBLED

Turnover share in digital channels – online and mobile – has doubled to 29% since 2008

The racing industry has been at the heart of New Zealand since colonial times and has touched the lives of virtually every New Zealander in some way. The NZ Racing Board head office in Petone is based only a kilometre from the first ever Thoroughbred meeting recorded in New Zealand, which took place on Petone beach in 1862.

Today, the New Zealand racing industry is a major contributor to the economy of local communities across New Zealand and to the national economy overall. Racing creates the equivalent of more than 17,000 full-time jobs, not to mention accommodation, travel, fashion and entertainment providers who all benefit from the industry's economic wellbeing. The bloodstock industry is also of international importance to New Zealand, with the export sale of horses – mainly to Australia and Asia – generating many millions of dollars each year.

In addition to the direct, economic benefits the industry delivers, racing evokes a passion and commitment amongst its fans that is the envy of other sectors.

The industry and our operating environment have changed dramatically since the NZ Racing Board and Racing Act 2003 came into existence. Sadly our days of exponential growth seem very far behind us. Today the industry is caught in a 'downward spiral'. In order for us to change our fortunes and return to a growth spiral we need to understand the challenges we face and devise strategies to tackle them together.

In the absence of a robust strategy, the NZ Racing Board and the industry have been subject to a number of trends for several years. Today we face challenges on three levels: as a business, as an industry and as a category of spend (an operator in the gambling sector).

OUR BUSINESS

As a business we needed to ask ourselves what it would take to be great again. For the past five years the NZ Racing Board betting profit has shown little growth.

Once our core business, domestic Tote betting has been in decline, reflecting the global trend. Import Tote however, is increasing, as we import more race offerings for our customers. In 2012/13, the NZ Racing Board imported 20% more international races than in the previous year. Import Tote turnover is expected to exceed domestic sales by the end of the coming financial year.

Whilst Fixed Odds betting has been flat globally, the Fixed Odds racing market is still maturing in New Zealand and we are experiencing growth; albeit some of this growth is from customers switching their spend from the Tote. The NZ Racing Board has some way to go before the contribution of racing Fixed Odds approaches the global average of 20% share of the racing betting wallet; at present it is 12%.

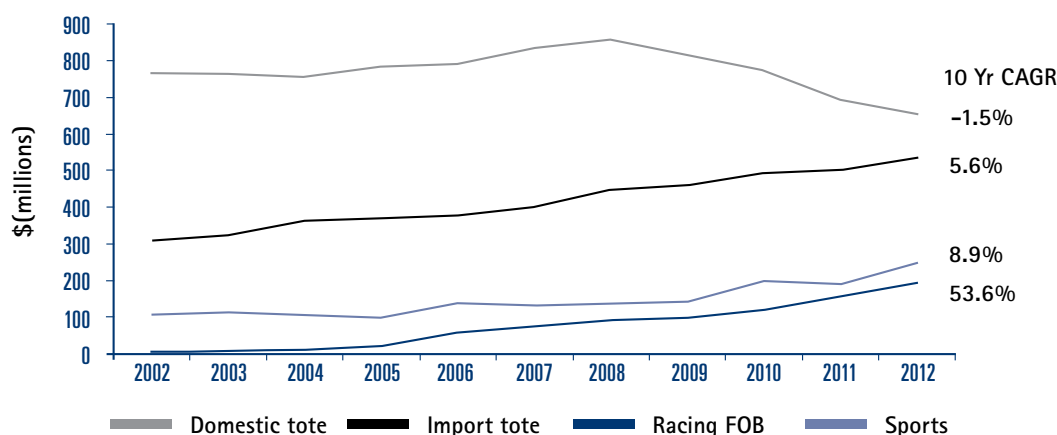
The challenge that the migration of turnover to Fixed Odds presents is the Tote delivers attractive margins to the industry, whereas Fixed Odds betting delivers much lower margins and can be a loss-leader if results go against our bookmakers' odds. We plan to mitigate this by introducing new products including a 'jackpot' bet type that will continue to build our product portfolio.

Fixed Odds betting on sport holds growing interest for our customers and the NZ Racing Board is committed to satisfying customer expectation through the delivery of an extended range of betting opportunities on a wider range of sporting events.

The global increase in broadcasting of live sports has led to significant growth in live betting during the game and we expect this trend to continue. As well as delivering significant returns, major sporting events give us the opportunity to improve our presence in the marketplace and appeal to new customers. The FIFA World Cup in 2014 presents a powerful opportunity for the TAB to win new bettors.

Although the NZ Racing Board is one of New Zealand's largest live broadcasters, our two channels are still broadcast in Standard Definition and until recently we had no strategy for the inevitable transition to High Definition. Our IT infrastructure is 30 years old and cannot currently support the development of new technologies, products and innovations that our customers expect, including a mobile app. Our retail network does not reflect the brand experience our current and future customers expect. There has also been underinvestment in our own staff. Clearly change is needed.

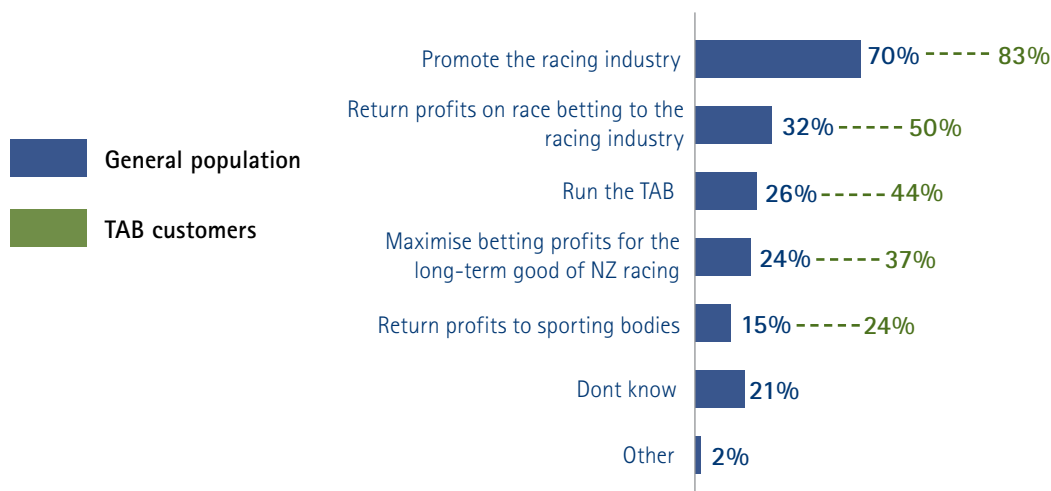
TURNOVER BY PRODUCT – 10 YEAR TREND



The NZ Racing Board's brand and brand architecture is also confusing. We are represented by a number of brands including the NZ Racing Board, TAB, TAB Sport, The Races, TAB TV, Trackside and Radio Trackside. Although the TAB brand is recognised by 99% of New Zealanders, their associations are not always positive. Furthermore, there is little understanding that the TAB is only one part of the much broader role the NZ Racing Board plays in New Zealand.

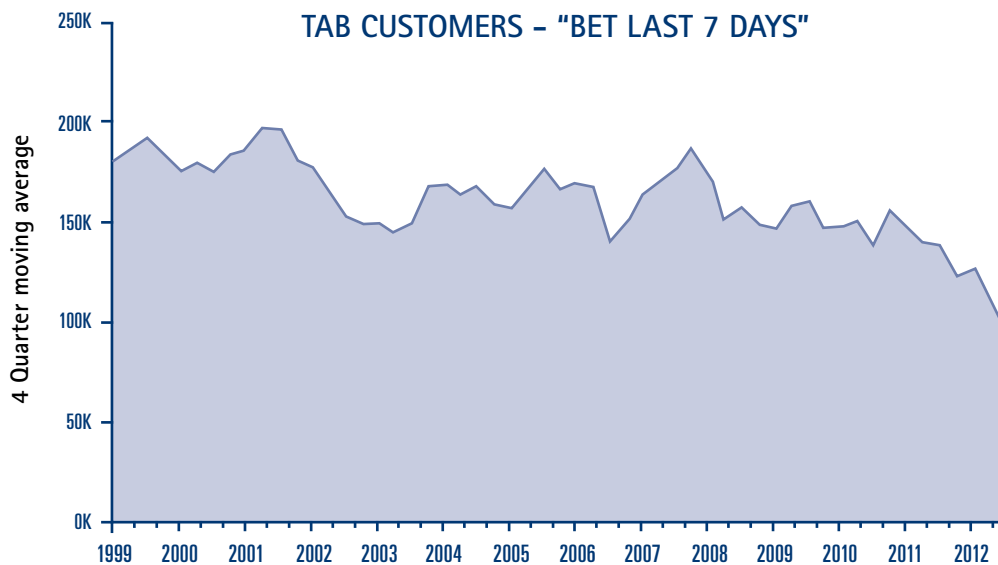
The NZ Racing Board has a wide base of customers but we knew very little about them until this year when a major research exercise involving more than 2,000 New Zealanders was conducted. These were a combination of customers, non-customers and members of the public. The invaluable insights that came from the research will inform our future strategies. There is a clear need to tell the story of what NZ Racing Board and TAB do for the industry and community at large, including making customers more aware of how much we contribute to grassroots.

WHICH OF THE FOLLOWING DO YOU KNOW THAT THE NZ RACING BOARD DO?



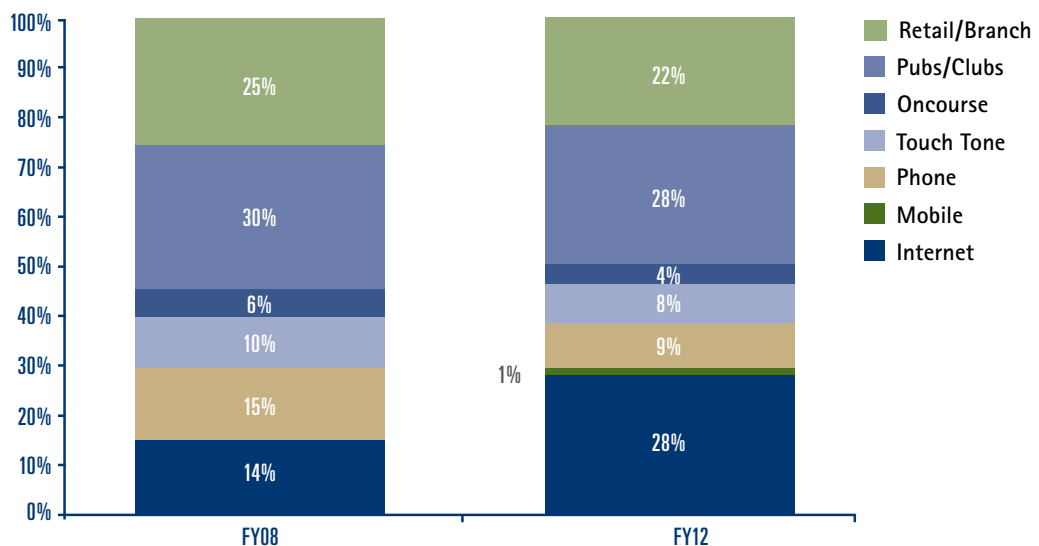
One of the challenges the NZ Racing Board faces is we still know very little about around half of our current customers, who spent \$900 million in cash transactions last year. Without account information on these customers, we face significant barriers to our ability to build organisational relationships with them, communicate with them directly or seek their feedback on our products and services. Meanwhile, our overall customer base is contracting as the number of customers who bet regularly is decreasing. The core base of known customers has shrunk to 100,000 regular bettors – half the level over a decade ago.

The pace of change since the NZ Racing Board was formed ten years ago has been incredibly fast and continues to accelerate. We now operate in a dynamic, digital environment that differs significantly from the world of 2003. This has led to significant changes in customer behaviour and expectations and we have work to do to catch up.



The NZ Racing Board is lagging far behind in online competitiveness. Our growth opportunities are inhibited and our customers frustrated by a technology platform that lags behind the norm in 21st century New Zealand. We do not have a TAB mobile app, are unable to stream live racing events through the Internet and do not provide Wi-Fi facilities at TAB retail outlets and industry event venues. Until this year we did not routinely engage with our customers online, where the majority of New Zealanders are active. Priority projects are now underway to address these limitations. This year we agreed on a social media strategy and launched TAB Facebook and Twitter, through which we are now actively engaging with 20,000 fans.

CUSTOMERS GOING DIGITAL



OUR INDUSTRY

Anecdotally it has been said for many years that the stakes are too low in New Zealand and the return on investment for owners is unsustainably low. This year the NZ Racing Board carried out a costing exercise to quantify the problem so we can lead the industry in developing solutions.

Our research established that the owner of a racing animal in New Zealand today will, on a weighted average across the racing codes, recover only 24% of their related expenses (excluding the initial investment/purchase costs). In other words, the racing industry owners as a total group have a 76% loss annually.

Whilst these figures sound alarming they are representative of a global reality for owners.

Garnering different results, an international case study can be found in Hong Kong, Singapore and South Korea where the Thoroughbred industry infrastructure is set up and governed very differently to New Zealand. They are usually focused around one or two race clubs and racing owners make a profit on their investment.

We are relying on a decreasing number of committed hobbyists, who sustain personal losses, to keep the racing industry alive. We must do everything we can to increase their returns so ownership becomes a more attractive proposition to newcomers.

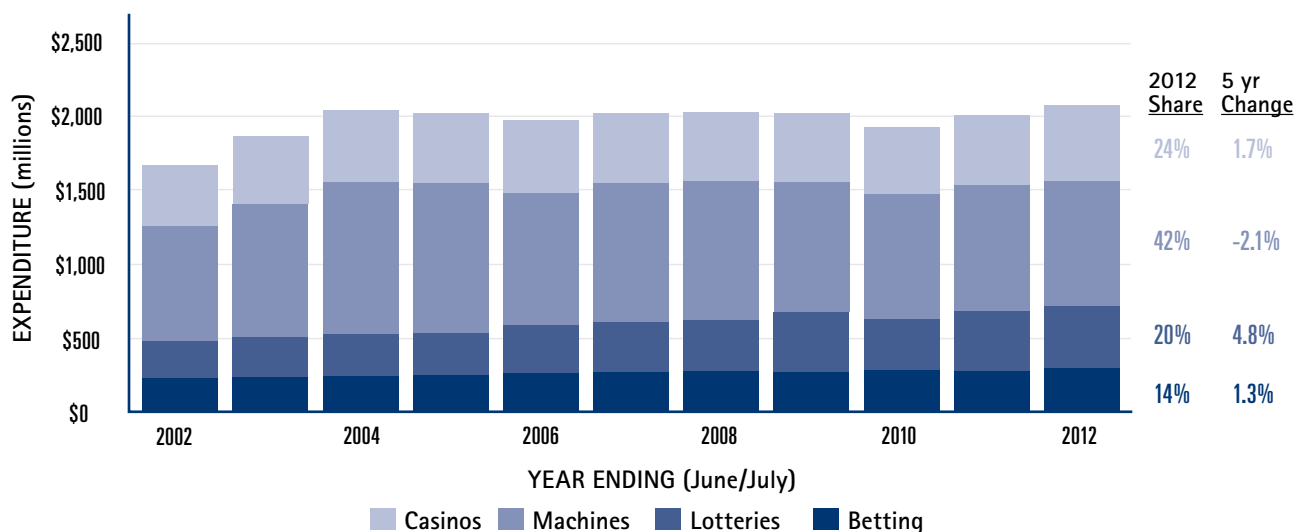
Raceday attendance has fallen considerably in the past decade as customers' entertainment choices have increased and, with that, competition for the discretionary dollar. Although most Clubs can count on the support of a core of customers who are committed to the domestic industry, they are also increasingly dependent on industry funding, which is earned by the NZ Racing Board through an increasingly diverse base that includes broadcasting, sports and gaming. Despite the decline in customer numbers, the industry continues to support racing at 65 venues hosted by 62 Thoroughbred, 47 Harness and 10 Greyhound Clubs.

A number of Clubs do an excellent job of attracting customers through special, promoted events such as Christmas at the Races, Midwinter Christmas at the Races and the Interislander Summer Festival. The NZ Racing Board has a dedicated team that supports the coordination, promotion and management of these events alongside the Clubs. 52,000 people attended the first Christmas at the Races event in 2007. By 2012 attendance had nearly doubled to 103,000.

THE GAMBLING CATEGORY

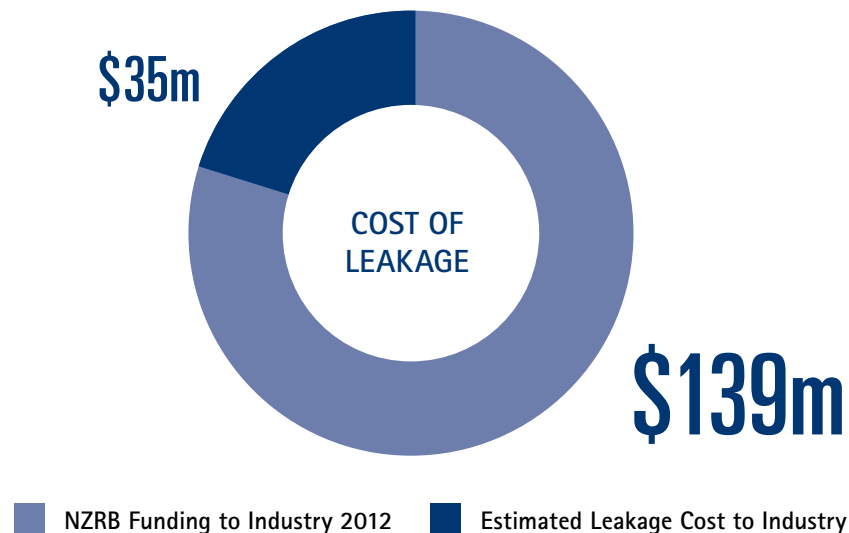
Nearly 30 years ago TAB had 95% market share for the gambling category in New Zealand. In 2002, gambling expenditure was \$1.6 billion and 14% of that turnover was going through the TAB. Today, expenditure has increased to \$2.1 billion but the TAB share has remained flat at 14%. The NZ Racing Board didn't do anything to precipitate this decline; it just failed to reinvent itself as the category grew over the past years.

NZ GAMBLING MARKET ANNUAL EXPENDITURE



Whilst the category itself is relatively flat, we know from our customer research there is great potential to grow if we can attract customers who want to enjoy social, fun betting. Non-customers, especially sports fans, were extremely positive about what the TAB has to offer.

COST OF LEAKAGE TO INDUSTRY (\$M) – 2012 ESTIMATE



As the sole provider of betting in New Zealand, one of the biggest challenges for the NZ Racing Board is the threat from offshore leakage. The NZ Racing Board conservatively estimates that more than \$300 million is bet offshore every year by New Zealanders. This significant revenue loss is estimated to cost the local racing industry up to \$35 million in annual distributions, while the estimated cost to the Government is \$30 million per year in lost revenue.

With the expansion of digitisation, New Zealanders are accessing a full range of international betting products and services online, including sports betting, race betting, poker, bingo and casino-style games. Legislation precludes us from offering many of the bets New Zealanders want to place, including non-racing or sport related events such as TV talent shows and as we saw earlier this year, the name of the Royal baby.

In addition, offshore leakage occurs with offshore providers and internet gambling websites who offer bets on our products to their customers. These providers do not re-invest in New Zealand by paying product fees, betting duties or New Zealand taxes – nor do they contribute to harm minimisation initiatives as required of the NZ Racing Board.

As an industry we need a strategy to tackle this leakage and work on legislative change to correct this and continue to support our racing and sporting codes with the contributions they deserve from the support of their fans.

In a country the size of New Zealand, with a population of around four million, there is limited opportunity to grow the domestic market, so we also need to grow our overseas markets. The New Zealand racing industry has a world class reputation; approximately half of the horses racing in Singapore are New Zealand-bred. Our racing product is highly exportable and we benefit from a time zone that can be leveraged to export live racing content to international audiences when they are not running their own races. In the last year, Trackside TV exported New Zealand races to Australia, UK, France, Singapore, North America, South Africa and the Middle East. Our Kiwi Bred series, profiling the New Zealand breeding industry, was broadcast in Australia, Dubai and Singapore.

2012/13 REBOOT: POSITIONING FOR GROWTH

AT A GLANCE

CHANGES

Substantial changes to the Board and Executive leadership, with the start of a new Chair, CEO and CFO

SEVEN YEARS

The NZ Racing Board held its first AGM in seven years

\$6.0 MILLION

NZ Racing Board resubmitted its 2012–15 Statement of Intent to target an extra \$6.0 million net betting profit cumulatively over the three year period

STRATEGY

Five year Corporate Strategy and Plan developed and embedded in the 2013–16 Statement of Intent

\$11.1 MILLION

Learning the lessons of Typhoon, the \$11.1 million technology project written off the previous year

'DEEP DIVES'

'Deep dives' carried out in every area of the business to provide a robust, fact based assessment of each business unit

INVESTMENT

Significant investment in building the commercial capability of our people to position for growth

CUSTOMER

Largest customer research undertaken

The past year has been about positioning the NZ Racing Board for growth following the introduction of a new CEO, new Chair, new Board and new Racing Board Leadership Team (RBLT). The detailed deep dives and learnings from the Typhoon project were taken on board for what adaptations were required for the business moving forward.

Under the new leadership structure, the NZ Racing Board expressed its commitment to establishing early momentum when it took the unprecedented step of revising and reissuing the NZ Racing Board's 2012–15 Statement of Intent. The resubmission identified efficiency savings and reflected a more aggressive betting profit target of an additional \$6.0 million culminating over the three year period, with \$1.0 million to be delivered in 2012/13. The revised 2012/13 target was successfully achieved and the strong financial result is the first tangible outcome of this business reboot.

Having examined every part of the business with robust consistency, through a series of 'deep dives', we can be confident our IT, distribution, broadcasting, betting, marketing, corporate affairs, procurement and supplier strategies are all heading in the same direction and aligned to our overall Strategy.

This year saw the development, approval and communication of the NZ Racing Board's new five year corporate strategy, outlining our vision to be the best entertainment business for New Zealand. The strategy contains robust, measurable goals designed to provide an appropriate commercial level of return to the industry. The strategy was developed in conjunction with staff and industry partners and is published in the 2013–16 Statement of Intent.

Driven by a desire to establish early engagement with the industry and set a new precedent for transparency, November 2012 saw the NZ Racing Board host its first Annual General Meeting in seven years and made a full video recording available via our broadcast channels. Last year's AGM was preceded by a heartland tour of the New Zealand racing industry by the Minister of Racing, along with the Chairman and CEO of the NZ Racing Board.

In the past year the industry has shown great commitment to increased collaboration. All industry CEOs now attend regular Combined Racing Industry Group (CRIG) meetings, monthly Code CEO Forums as well as each other's respective AGMs. It is by continuing collaboration that the NZ Racing Board will earn the credibility and respect to lead the industry agenda for long term, sustainable growth. This year CRIG expressed a vote of confidence in the NZ Racing Board when it handed over management of joint industry projects to the newly established NZ Racing Board Project Management Office.

It is the role of the NZ Racing Board to lead and deliver a strategic plan for the industry. The industry strategic plan is separate to, but dependent upon, the NZ Racing Board corporate strategy as it was essential to get our own house in order before leading the industry. Now that the corporate strategy has been produced and socialised with the industry and Government, the NZ Racing Board will focus on the production of an industry strategy. Given the complexity of the industry and the challenges it faces, as well as the number of stakeholders involved, the industry strategy has many horizons over a number of years. In the coming year we will embark

Taking the lessons learnt from the Typhoon project, a new five year technology roadmap has been developed

on Horizon 1 of the Industry Plan – producing a plan for a plan. We will do this by building on the positive engagement that has been established with the industry and continuing our policy of open dialogue, transparency and collaboration to achieve further convergence of thinking and the development of a plan that will drive change and sustainable growth.

In order to obtain robust data and intelligence to inform the creation of a strategic plan for the business, the NZ Racing Board commissioned the largest research exercise in the NZ Racing Board's history. As well as giving a clear picture of customer and non-customer perceptions, the research provided rich data that will inform decision-making and prioritisation for several years.

The research has shown we have a massive opportunity to maximise the value of our existing customers by improving our offering to them. We also need to reach new customers and capture future markets, using the channels of their choice and products that appeal to them.

In 2009 the business undertook a comprehensive IT re-engineering exercise known as the Typhoon project, to address the challenges of operating on 30 year old IT infrastructure. As was documented in the 2012 NZ Racing Board Annual Report, Typhoon was ultimately not successful and the \$11.1 million associated costs were written off in the previous financial year.

A new Chief Information Officer, Colin Philp, was appointed in 2012. Based on the lessons learned from Typhoon, he instigated and oversaw the evaluation of the existing technology infrastructure and the development of a new technology framework and roadmap. The new five year framework has been signed off by the Board and represents the beginnings of a step-change in capability that will deliver improved customer channels, retail customer experience and betting capabilities. To ensure robust governance of all NZ Racing Board projects, a project management office was set up this year to oversee the management and delivery of all key NZ Racing Board projects as well as CRIG initiatives. Robust project management will ensure all business activities deliver the benefits outlined in respective business cases and support achievement of our strategic goals.

To achieve sustainable growth the NZ Racing Board has to become a customer-obsessed organisation and make customer experience our top priority. This year saw the introduction of the first NZ Racing Board Customer Council, which now meets regularly to discuss and address customer issues. We also successfully resolved a number of issues that had frustrated customers and we achieved this by simply giving them the focus they deserved. Removal of the need for customers to repeatedly enter their PIN on the TAB website, following several years of complaints, was particularly well received. For the first time we are also engaging with customers on the development of new products, to ensure we take on board their feedback and meet their betting needs.

This year the priority of the NZ Racing Board was to establish solid foundations and position the business for growth. We have successfully achieved this aim and are now well positioned to achieve the growth outlined in our Corporate Strategy.

CORPORATE STRATEGY: WHAT GETS MEASURED GETS DONE

The 2012/13 positioning for growth agenda demonstrated the NZ Racing Board's commitment to getting its own house in order, with a goal of increasing returns to the industry as quickly as possible. Positioning for growth was seen by the RBLT and Board as a critical step towards creating the agenda for sustainable industry growth. As the new RBLT and Board consolidated a deep understanding of the business and operating environment, they began to formulate a corporate strategy.

In August 2013, the NZ Racing Board 2013–16 Statement of Intent (SOI) was formally tabled in Parliament. The two key components of the SOI are an overview of our five year corporate strategy and our 2013/14 budget. The document also outlined specific targets and measures of success for the business that will be managed through the strategy monitoring and evaluation process. Progress will be reported to the Board and the Minister for Racing through quarterly updates.

The NZ Racing Board's new five year strategy was developed over nine months and involved extensive consultation with staff and industry stakeholders. The strategy outlines our goals and is underpinned by the NZ Racing Board's purpose, as stated in the Racing Act 2003.

The vision of the NZ Racing Board is to be the best entertainment business for New Zealand.

OUR PURPOSE, AS DEFINED BY THE RACING ACT 2003 IS TO:

- Run a profitable betting business
- Promote and enhance the racing industry
- Generate long term profit for the benefit of the racing industry

OUR STRATEGIC GOALS OVER THE NEXT FIVE YEARS ARE TO:

- Generate a surplus of \$160 million–\$180 million
- Grow stakes by 50%
- Grow returns to owners by 50%
- Generate 30% turnover from new markets and products
- Reduce cost-to-income ratio to below 30%

THE SEVEN STRATEGIC IMPERATIVES THAT DRIVE THE STRATEGY ARE:

- Run today better – by driving improvements in products, technology, digital channels, people and processes and transforming the way the NZ Racing Board runs its business
- Win new customers – and retain them by improving betting options, introducing loyalty initiatives and align product and channel delivery to meet the needs and wants of our customers
- Change the game domestically – by capitalising on opportunities to reshape our business and add more value through tote product innovations, new high jackpot products, develop the NSO relationships and optimise content and delivery of our broadcasting services
- Increase export – by maximising the potential of emerging markets, increase supply to Australia (currently we are 4% of their tote betting dollar) and improve our offering for overseas customers
- Reduce long term cost base – by improved efficiency, leveraging assets, improved channel costing strategies as related to customer preferences
- Stop offshore leakage – by engaging with Government and government agencies to examine viable options to address the issue
- Implement the industry plan – to transform racing, improve its relevance, increase engagement and drive innovation to maximise revenue and minimise costs

OUR 5 C's ARE THE FOUNDATION FOR OUR STRATEGY:

- Culture – the desire to win
- Capabilities – investing in success
- Customer – responsive and innovative
- Community – knowing who we serve
- Convergence – heading in the same direction

KEY INITIATIVES

20 key initiatives were prioritised for delivery over the next five years. Out of the 20, seven were prioritised for implementation in 2013/14:

1. DIGITISE THE BUSINESS

Deliver targeted projects (race streaming, develop a mobile app and provide online verification) to improve the digital offering for our customers – for both the account and cash areas of the business – and ensure the NZ Racing Board has the appropriate product offering mix to leverage growth in digital sales.

2. GAMING/C4

Grow gaming responsibly as a best-in-class operator and increase revenue contribution from this stream of the business.

3. PRODUCT INNOVATION

Introduce new products to meet changing customer demands and attract new non-TAB customers by providing alternative, superior betting entertainment products including high jackpot products.

4. BROADCASTING

Address and resolve platform, studio and ageing infrastructure challenges to allow a high quality comprehensive content and channel strategy to be delivered in 2014.

5. VIPs (FORMERLY vHVCs)

Finalise contractual arrangements with current VIP customers and progress the acquisition of new customers in this category.

6. LEGISLATIVE UPDATE

Engage the government for changes to the Racing Act 2003 and the Gambling Act 2003, which are outdated and no longer meet the increasing challenges and threats posed by the modern, global betting environment. Changes are necessary for the long term, sustainable viability of betting in New Zealand.

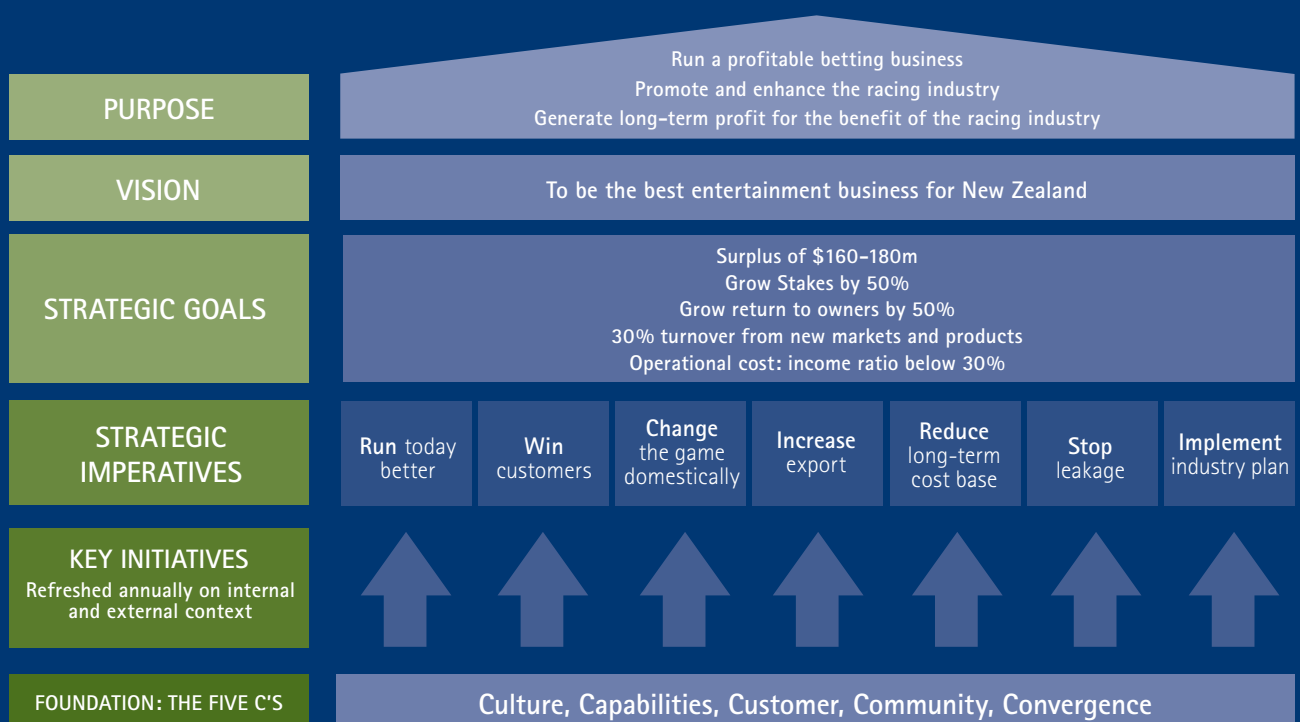
7. RE-ARCHITECT IT

Improve technology architecture to enable the delivery of new revenue streams and to build a solid foundation for better day-to-day operations, while also creating a platform for future initiatives, incorporating lessons from project Typhoon.

There is a robust governance and monitoring programme in place to provide oversight of strategy implementation.

NZRB STRATEGIC FRAMEWORK

Our strategy is based on the framework illustrated below, led by our purpose and underpinned by our foundation – the Five Cs.



STRATEGY



Monique Cairns,
*Executive GM Strategy and
Transformation*

AT A GLANCE

FIVE YEAR

A new five year corporate strategy developed and included our Statement of Intent

ROADMAP

Development of a 'plan for a plan' outlining the roadmap for the Industry Strategic Plan

RESEARCH

Largest consumer research project ever undertaken for the NZ Racing Board

This year saw the development, approval and communication of the NZ Racing Board's new five year corporate strategy. The strategy contains robust, measurable goals designed to deliver an aspirational level of return to the industry. The strategy was developed in conjunction with staff and industry partners. An overview of this is published in the 2013-2016 Statement of Intent and outlined in the Corporate Strategy section of this report.

- Our five year corporate strategy represents ambitious goals that aim to deliver a new level of return for stakeholders. Transformation of the industry and NZ Racing Board is critical to realise these goals.
- The strategy articulates seven strategic imperatives that outline our areas of focus.
- Supporting the financial goals is a portfolio of 20 Key Initiatives that will be rolled out over the five year horizon.
- A business plan for FY14 has been developed that represents year one of the five year programme.
- Following a rigorous prioritisation process, seven Key Initiatives were selected for implementation in year one. These seven are expected to deliver incremental profit in FY14 while building a foundation for the roll out of initiatives in future years.
- There is a comprehensive governance process in place to monitor the implementation of the seven Key Initiatives. A programme of ongoing reviews will facilitate development of any remedial actions. Quarterly reviews with Management and Board will be carried out as part of the strategy governance.

Following development of the NZ Racing Board corporate strategy, the next strategic priority is to lead collaboration with the industry to develop Horizon 1 of the Industry Strategic Plan. The Industry Strategic Plan is a critical undertaking. Stakeholders are looking to it to shape the future of the industry by ensuring the industry and its governance model are sustainable and commercially viable. Development of the Industry Strategic Plan will involve working closely with the Codes and a wide range of stakeholders to agree on a plan to drive much needed industry transformation. The new framework will also incorporate Sport NZ and the National Sports Organisations as key stakeholders.

Various reports have been conducted into the racing industry in recent times and they have all called for bold and transformational action. Some recommendations have been implemented but most remain outstanding. The industry and NZ Racing Board are at a critical juncture given the pressure on betting earnings and continued decline in real levels of return to stakeholders. The Industry Strategic Plan will draw on the work of historical reports as well as comprehensive research and analysis, including international benchmarking of the racing industry's current state, to develop credible options for stakeholders to consider.

The largest customer research exercise undertaken by NZ Racing Board was completed this year involving interviews with almost 2,000 customers and non-customers. The research provided valuable insights into brand perception, broadcasting, gaming, new products and distribution. These insights will inform our strategic business decisions. Building on NZ Racing Board's major research exercise this year, we will establish a centre of excellence for research and analytics that will support an evidence-based decision making discipline within the organisation.

**OUR FIVE YEAR CORPORATE STRATEGY REPRESENTS AMBITIOUS GOALS
THAT AIM TO DELIVER A NEW LEVEL OF RETURN FOR STAKEHOLDERS**



**EVERY BET PLACED ON A SPORTS EVENT AT THE TAB HELPS TO GROW
AND SUPPORT SPORT IN NEW ZEALAND**

CORPORATE AFFAIRS AND COMMUNITY

AT A GLANCE

IMPROVED

Improved communication and relationships with industry stakeholders, including the three racing Codes, Clubs, industry bodies, Central and Local government, Department of Internal Affairs, Sport NZ and National Sports Organisations

AGM

First Annual General Meeting held in seven years

INDUSTRY

First industry stakeholder survey conducted

ON COURSE EVENTS

20% more franchised on-course events delivered in partnership with Clubs

COMMUNICATION

Communication and cooperation scores increased by 13% in staff 'Your Say' survey

MEDIA COVERAGE

The NZ Racing Board increased media coverage by 30% this year with the message most frequently associated was that it acts in the best interest of all racing Codes and the future of the racing industry

Given its remit to lead and promote the racing industry in New Zealand, the NZ Racing Board has a wide Corporate Affairs and Community agenda. Activities include Government relations, industry liaison, sport partnerships, community engagement, social media, media relations, internal communications and partnering with Clubs to offer premium on-course events.

Continuing to build strong relationships with Government and all political parties will be a major focus for the coming year. Legislative support is required to address the challenges of offshore leakage and to enable the NZ Racing Board to compete in today's environment.

In the past year the industry has shown great commitment to increased collaboration. As mentioned earlier, all industry CEOs now attend regular Combined Racing Industry Group (CRIG) meetings, monthly Code CEO Forums as well as each other's respective AGMs. As well as supporting today's industry in practical ways, the NZ Racing Board will continue to lead industry collaboration and convergence of thinking with a view to developing an Industry Strategic Plan.

The NZ Racing Board's first stakeholder perceptions survey was sent to Codes, Clubs and industry bodies, asking them to rate their confidence in the NZ Racing Board. Whilst 67% of respondents believe management and leadership at the NZ Racing Board has improved in the previous 12 months, only 1% felt the promotion of racing had improved in the same period. Although the survey shows we are heading in the right direction, there is still much work to be done and the data will assist us in prioritising our activities.

This year the on-course marketing and events team worked with Racing Clubs to successfully deliver 20% more franchise branded events. The events, including the Interislander Summer Festival, Christmas at the Races and Midwinter Christmas at the Races, are excellent products specifically designed to attract new customers. Based on the success of this season, the three Codes have entered into a three-year business plan with the NZ Racing Board for the continued provision and expansion of on-course marketing and events support.

The industry has many great stories to tell to enable New Zealanders to feel proud of its significant contribution to the economy and culture of the country. Progress was made this year as positive media coverage doubled over last, showing TAB had improved its profile as an organisation that acts with integrity, and this was the leading message associated with TAB's media profile.

Improved internal communications and increased efforts by the Executive management team to engage directly with employees contributed to a 13% jump in communications and cooperation scores in the annual staff engagement survey. We will continue to build on this achievement in the coming year.

The NZ Racing Board also plays a significant part in the communities of New Zealand through its support of the racing industry, professional and grass roots sports bodies and community projects.

Total betting turnover for Basketball for the year was \$46.8 million, just ahead of Rugby Union at \$45.4 million

SUPPORTING COMMUNITIES: SPORTS LEVIES

As well as directly supporting the racing industry through distributions to the Codes, The NZ Racing Board plays a major role in supporting grass roots sports and community initiatives.

Every bet placed on a sports event at the TAB helps to grow and support sport in New Zealand. The NZ Racing Board continues to provide vital financial assistance to 33 National Sports Organisations through the levies it pays to allow betting on individual sporting events.

Total levies paid and accrued for these organisations in 2012/13 were \$3.8 million. The levy is based on a percentage of betting turnover and profit on bets placed on each sporting discipline.

This year, the number one New Zealand sport by betting turnover was Basketball, partly a reflection of the success of the New Zealand Breakers, who won the Australian National Basketball League for a record third time.

Although Rugby Union remains the number one sport by betting volume, with more than 50,000 TAB account holders placing a bet during the financial year, higher value bets were placed on Basketball by the sport's 17,000 fans.

All Black legend Colin Meads placed the first ever sports bet in New Zealand, following legislation enacted in 1996. The occasion was the All Blacks v Wallabies Rugby match at Wellington's Athletic Park.

Total betting turnover for Basketball for the year was \$46.8 million, just ahead of Rugby Union at \$45.4 million. The top 10 sports, ranked by betting turnover at the TAB for 2012/13 are:

THE TOP 10 SPORTS, RANKED BY BETTING TURNOVER

1	BASKETBALL	6	CRICKET
2	RUGBY UNION	7	BASEBALL
3	RUGBY LEAGUE	8	AMERICAN FOOTBALL
4	FOOTBALL	9	GOLF
5	TENNIS	10	ICE HOCKEY

The NZ Racing Board plays an important part in the funding of sports in this country. Some National Sports Organisations could not survive financially without the disbursements received from the TAB. Baseball New Zealand, for instance, is one of the country's fastest growing sports and is almost entirely reliant on the funding it receives from Kiwis betting on US Major League Baseball games.

This is an example of how the NZ Racing Board has broadened its offering to include international events for the betterment of domestic sporting organisations. The changes have also allowed the TAB to appeal to a wider customer base beyond the three Racing Codes and forge closer partnerships across the sports industry for mutual benefit.

The NZ Racing Board has made meaningful contributions to communities around New Zealand, including:

- Financial assistance for New Zealand Rugby League to put together junior and senior national competitions for its Zone Community Carnivals and Zone High Performance camps
- Funding for Basketball New Zealand's National Age Group tournaments throughout the country
- Financial assistance for the New Zealand Darts Council to send teams to all World Darts Foundation tournaments in New Zealand and abroad, while host associations within New Zealand received funding to hold senior, junior and youth tournaments

The NZ Racing Board continues to expand its involvement with community sports

The NZ Racing Board has also provided financial assistance to community sporting organisations that are not directly related to sports events bet on, through distributions as part of its Class 4 Gaming Licence. These include:

- \$100,000 to Special Olympics New Zealand & regional Special Olympics clubs that will allow hundreds of Special Olympic club-members and staff to get to the New Zealand Special Olympics Summer Games in December.
- \$57,000 to Paremata Plimmerton Rugby Football Club provided the annual operating expenses of the Paremata Plimmerton Rugby Football Club for the 2013/14 season. It allowed the club to purchase key equipment such as mouth-guards, uniforms, drink bottles, training tracksuits, and match-balls.

Under its Sports Authorised Purpose, the NZ Racing Board paid a total of \$1.0 million, to a number of amateur clubs across many sporting codes. These grants helped facilitate the participation in sport for a significant number of New Zealanders throughout the country.

The NZ Racing Board also provided written advocacy to insurers on behalf of the Canterbury Rugby Union, supporting their claim for loss of gate takings as a result of the earthquakes. The NZ Racing Board is pleased to report that this matter was resolved in the Union's favour.

SUPPORTING COMMUNITIES: SPONSORSHIP

This year the sponsorship portfolio comprised of the Vodafone Warriors and the Wellington Phoenix. It was the third year of partnership with the capital's football team, while the 2012 National Rugby League season was the first time the NZ Racing Board had aligned itself with the Warriors. While neither team progressed to their respective playoffs this year, the partnerships enabled TAB Sport to activate a variety of campaigns to broaden its community engagement. These include:

- The TAB Sport Celebrity Cash Kick
- Weekly TAB Sport Phoenix Updates
- TAB Loves League campaign
- TAB Facebook Page

The sponsorship partnerships also allowed the TAB to engage directly with fans of successful New Zealand sports teams that are not presently aligned via a betting contract with the agency. The current sponsorship arrangements are under review as part of the NZ Racing Board's assessment of its strategic sponsorship requirements.

The NZ Racing Board's new corporate strategy provides the foundation for a new sponsorship strategy, which aligns expenditure more closely with the high growth area of sports betting. The growth opportunities are self-evident in five-year betting trends, with sports fixed odds betting increasing 74% during that period.

The NZ Racing Board will continue to engage with sports communities through sponsorship arrangements and other initiatives, particularly by using digital channels. Future initiatives will be closely aligned to key strategic goals and involve direct access to fans, engagement with sporting communities and content creation as the fundamental sponsorship benefits.



Glenn Patrick, *Executive GM TAB*

AT A GLANCE

\$64.7 MILLION

TAB Fixed Odds Race Betting turnover grew by \$64.7 million (34%) last year

\$46.8 MILLION

Basketball overtook Rugby as the top betting sport in New Zealand with total betting turnover of \$46.8 million

10%

Calls to PhoneBet services are declining by 10% each year

11,040 RACES

More than 11,040 races from 1,055 domestic race meetings were filmed and broadcasted

165,000

165,000 regular viewers watched Trackside and TAB TV each week

\$775,000

Revenue of \$775,000 was raised through television and radio advertising

16,000

Direct marketing led to the reactivation of nearly 16,000 TAB accounts and delivered \$3.8m in increased turnover

TAB

The TAB business comprises Betting, Broadcasting, Gaming, Marketing & Digital and Sales & Distribution. To support the vision of the NZ Racing Board to be the best entertainment business for New Zealand the key strategic imperatives of the NZ Racing Board are to run today better, win customers and reduce our long term cost base.

BETTING

The constant challenge throughout the year was the continued decline in Tote betting on domestic racing. In betting turnover terms this was more than offset by the growth in domestic Fixed Odds betting as customers move from Tote to Fixed Odds. In an effort to protect our margins, we launched the new product 'Place6', made changes to deductions and introduced financial incentives for TAB retailers to sell higher-margin products. Work is also underway to develop a jackpot style product with broad appeal that will offer bigger opportunities for customers.

Live sports betting growth is expected to continue. In 2012/13, the TAB Watch and Bet service was expanded to offer live streaming of NBA Basketball matches, with the result that Basketball overtook Rugby as the number one betting sport in New Zealand, achieving a turnover of \$46.8 million.

Our challenge is to be capable of delivering the variety of live products that customers want, through the channels they choose to use, so technology will continue to play a major role in the success of sports Betting as we make our way to the 2014 Football World Cup in Brazil.

BROADCASTING

With the evolution of technology and the number of media viewing options now available, the business is planning the inevitable migration from Standard Definition (SD) to High Definition (HD) broadcasting for studio, broadcast trucks and network linking. The transition to HD forms part of a wider broadcasting strategy that will include a review of programming content and future broadcast platforms – free to view, pay and new media.

A content strategy is also being developed to address the challenges of delivering racing coverage across our two channels, Trackside and TAB TV. The majority of our customers currently have access to both channels and complain about the duplication and lack of pre and post-race coverage. Ultimately we will split live racing content across both channels, rather than duplicating, thus giving greater viewer choice and increased programming flexibility. This approach will maximise betting opportunities, lead to greater customer satisfaction and differentiate the two channels.

GAMING

The TAB is currently a relatively small Gaming operator in New Zealand. At 31 March 2013 we operated 341 gaming machines out of the New Zealand total of 17,500 gaming machines. In the coming year we will look for opportunities to responsibly grow the gaming side of our business.



SALES & DISTRIBUTION

Whilst TAB agencies, branches, pubs and clubs nationwide continue to be our shop window, customers are increasingly betting on-line and via mobile, while calls to our PhoneBet service are declining by 10% each year. In 2013 the PhoneBet minimum bet was increased for the first time since 2007, from \$5 to \$10. To enable customers to continue to place bets under \$10, opening hours for the Early Bird PhoneBet service – where customers can place a \$2 minimum bet – were extended.

In recognition of the significant contribution they make to our business, we are in the process of reviewing and extending the packages, products and account management services we offer to our Elite customers and plan to roll these out in early 2014.

Boosting the sales capability of our staff is a major focus for the TAB. This year a new incentive scheme was introduced across our retail network to encourage a sales and margin performance culture. Plans are underway to support this with the introduction of a talent development programme for sales staff.

Annual sales at two TAB retail outlets – Alexandra Park TAB and Right Track Sportsbar and Café in central Auckland – topped \$10 million this financial year. These outstanding results follow the success of Chances Sports Bar in Auckland, which, in the previous year, was the first TAB store to hit \$10 million in sales.



Martin Saunders, Chief Operating Officer

AT A GLANCE

AUSTRALIAN

Australians bet more on NZ racing than New Zealanders do

58,000

Our relationship with Australia's Tabcorp delivered more than 58,000 races from outside New Zealand

SuperTAB

Our customers get access to more stable betting returns through our status as a SuperTAB Totalisator Pool member

OPPORTUNITIES

We will offer even more international opportunities to our customers this year

INTERNATIONALISATION

New Zealand's population of around four million means there is limited scope to grow the domestic market. Growing our overseas markets is an imperative. In particular, we want to deliver an extended programme of New Zealand racing into Australia. It is a credit to the quality of our racing product that Australian bettors currently bet more on New Zealand Racing than New Zealanders. Given the sizeable population of Australia, and the fact that the spend on New Zealand racing represents only 4% of tote betting in Australia, the market represents a massive opportunity for expansion.

Key to our increased international presence is our mutually beneficial relationship with our Australian betting and broadcasting counterpart, Tabcorp. Thanks to this partnership, more than 58,000 mainly Australian races in the 2012/13 season were presented to our customers. This greatly boosted our customer offering of 11,000 races that were hosted by the three Codes in New Zealand. Our current agreements with Tabcorp will expire in 2015 and, given their strategic significance, are already under renegotiation.

As a member of the SuperTAB Totalisator Pool, the NZ Racing Board jointly shares its betting turnovers with certain States of Australia. This means we can offer our customers access to greater betting returns from highly liquid pools.

Our focus on internationalisation will see us expand our commingling pool betting opportunities worldwide. The whole racing world is excited by the Hong Kong Jockey Club's plan to allow tote guests to commingle into their betting pools. Together with our Australian partner, Tabcorp, the NZ Racing Board has developed the technology to enable our customers to participate in this initiative. The new Triple Trio Tote bet, to be introduced in New Zealand in early 2014, is designed to be commingled with Hong Kong, where the Triple Trio has very large pools and delivers jackpot-style dividends.

We are also seeking to extend our reach globally by leveraging our time zone, which is clearly very attractive to the Australian market. Beyond this, under our international marketing arrangements with Tabcorp, our racing is delivered into the Middle East, Asia, South Africa, North and South America, and the UK and other European countries. We see these markets as emerging but growing and expect revenues to increase significantly over the coming years.



**WE ARE SEEKING TO EXTEND OUR REACH GLOBALLY BY
LEVERAGING OUR TIME ZONE**

TALENT



Emma Scott, *Chief Talent Officer*

AT A GLANCE

70.9%

Engagement rates for staff improved from 66.5% to 70.9%

66%

Enablement score was 66% for 2012-13 and we are aiming for 70% next year

IMPROVEMENT

Positive improvement in 10 out of 12 behaviours associated with leadership

BENCHMARKING

Performance benchmarking brought in line with New Zealand norms

Transformation of the NZ Racing Board started with its leadership. Significant structural change has already taken place and we are continuing to work to ensure we have the right skills and competencies in place throughout the organisation to support our goals and to meet the challenges ahead.

In 2012 the NZ Racing Board carried out the first employee engagement survey for ten years. The 2013 'Your Say' results showed a significant improvement in engagement scores across the NZ Racing Board compared to the previous year. Participation rates increased from 66% to more than 80% and the number of engaged employees increased from 66.5% to 70.9%. Communication and cooperation scores saw the biggest increase, up 13%.

To support the continued focus on leadership development, the LSI leadership 360° survey was also rolled out to leaders this year. Since the exercise was last completed in 2010 there has been a significant improvement, with positive movement in 10 out of 12 behaviours associated with great leadership. This robust measure of leadership capabilities and behaviours will inform the future Talent Development programme for leaders.

Having an accurate understanding of staff capabilities will inform our future talent development programme, so a major challenge for this year has been the resetting of expectations around performance management. Performance benchmarking within the NZ Racing Board has now been brought into line with New Zealand market norms.

To support the focus on driving up revenue and continued improvement of leadership capability, the immediate priority for the team will be instituting a talent development programme for the leaders in the retail network, followed by an equivalent programme for leaders across the business.

A major objective for the business in the coming year will be aligning employees' career ambitions to the NZ Racing Board strategic goals. This will allow us to develop our staff and seek future talent from within the organisation.



A MAJOR OBJECTIVE FOR THE BUSINESS IN THE COMING YEAR WILL BE ALIGNING EMPLOYEES' CAREER AMBITIONS TO THE NZ RACING BOARD STRATEGIC GOALS

TECHNOLOGY



Colin Philp, Chief Information Officer

AT A GLANCE

1.8 MILLION

On Melbourne Cup Day 1.8 million bets were processed in one day

99.995%

Betting system availability was 99.995% for the year

NO DISRUPTION

No significant disruption to service following major storms and earthquakes

49TH LARGEST

CIO Magazine lists NZ Racing Board as the 49th largest IT shop in NZ

As has been well documented, the NZ Racing Board is operating on 30 year-old IT infrastructure that cannot support the development of new technologies, products or the kind of innovation our customers expect. In 2009 the business undertook a comprehensive IT re-engineering exercise we called the Typhoon project. For a number of reasons Typhoon was not successful, but it provided valuable understanding of our challenges and potential solutions.

Based on this knowledge, our new Chief Information Officer instigated and oversaw the evaluation of the existing technology infrastructure and the development of a new technology framework. The new framework represents the beginnings of a step-change in capability that will deliver improved customer channels, retail customer experience and betting capabilities. This will involve the building of a new, service orientated architecture that will be the underlying enabler for a significant number of the NZ Racing Board's broader business strategies. As well as supporting more rapid and efficient technology changes and enhancements in the future, the new architecture will ultimately make it easier for customers to place bets with the TAB.

The new technology strategy is built on a staged investment cycle model to minimise risk and ensure all spend will deliver the benefits outlined in the business case. It is critical that all staged investments support NZ Racing Board priorities and enable ongoing tactical investments in current systems as we migrate to the new.

A project management office was set up this year to oversee the management and delivery of all key NZ Racing Board projects as well as CRIG initiatives. Robust project management will ensure all business activities deliver the benefits outlined in respective business cases and support achievement of our strategic goals.

A number of software developments to help drive revenue and provide better services to customers were delivered. Removal of the requirement for customers to repeatedly enter their PIN when betting on the internet was particularly well received.

The betting system was impressively resilient throughout the year, with availability at 99.995%. This enabled the core betting system to process 1.8 million bets on Melbourne Cup Day in 2012, peaking at 174 account bets per second and delivering turnover of \$20.1 million.

Business Continuity Plans worked well throughout the year, with minimal disruption to service following a number of major weather events and earthquakes.

Broadening and enhancing payment options for customers will be a major focus for technology and the TAB in the coming year. For the first time, and in response to public demand, customers will be able to use credit cards in the TAB agency and branch network.

Delivery priorities for the coming year include developing technology to support the new betting product, Triple Trio, live streaming of events and a mobile betting app.



**A NUMBER OF SOFTWARE DEVELOPMENTS TO HELP DRIVE REVENUE AND
PROVIDE BETTER SERVICES TO CUSTOMERS WERE DELIVERED**

THE COMING YEAR: BEING THE CHANGE WE WANT TO SEE



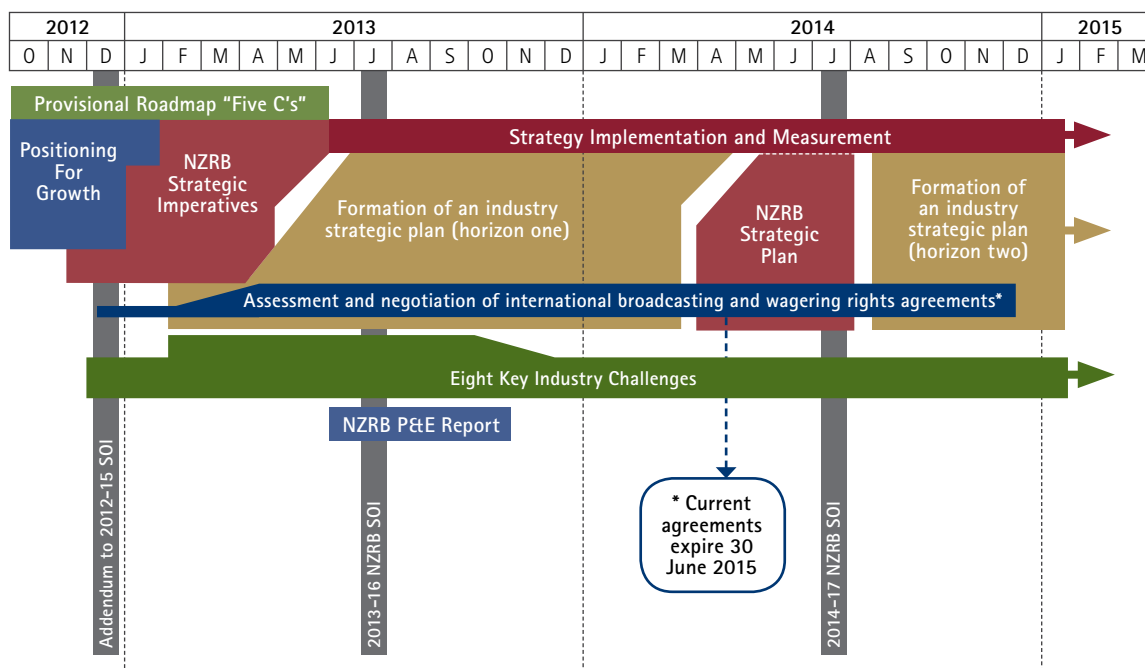
Chris Bayliss, *Chief Executive*

2012/13 was about getting our own house in order and positioning the NZ Racing Board for growth. The next 12 months will be about the industry.

The NZ Racing Board takes its responsibilities to lead, promote and enhance the industry extremely seriously. The most credible way to lead is by example and the past 12 months shows we are walking the talk. This year, our immediate priorities were to sort out our governance, get our finances in order, deliver quick revenue wins and produce a corporate plan. We have successfully achieved all of these priorities and are now being the change we want to see happen across the industry.

As an organisation, the NZ Racing Board has been through a process of deep, and at times painful, self-examination. We had to break free of old paradigms and established patterns so we could make bold decisions to deliver sustainable growth for our business. We will now lead the industry through a similar process. Increased distributions and returns to owners are essential in the medium term, but structural changes via an Industry Strategic Plan are needed to deliver the long term solutions required.

Plan for a Plan



It is the role of the NZ Racing Board to lead and deliver a strategic plan for the industry. But it would be presumptuous to think we could introduce an industry plan before taking the time to engage extensively with our partners to get a deeper understanding of what our stakeholders want to achieve.

The reasons for the industry's decline over recent decades are complex. There are no silver bullets and the solutions are unlikely to be agreed upon in the space of a year. The production of an industry plan is a long term project and all elements will require extensive and informed dialogue with industry stakeholders. The first stage will be about understanding how such a plan would evolve. In the coming year we will embark on what we have termed Horizon 1 of the Industry Plan – producing a plan for a plan. We will do this by building on the positive engagement we have established with the industry and continuing our policy of open dialogue, transparency and collaboration to achieve further convergence of thinking.

Through consultative dialogue, the NZ Racing Board will provide leadership and the strategic vision to shape the change the industry must embrace. Our overriding objective is to consult, plan, commit to and lead meaningful change that will provide future sports and racing participants with an economically successful, sustainable and vibrant industry.

Two of our major partnership contracts will expire in the next two years and work is already underway to renegotiate these. The first is with Tabcorp, our counterpart in Australia and the vehicle through which we will seek to further expand our import and export opportunities. The second is our funding distribution model with the Codes, which expires in July 2015. Any changes to the business must result in improved distributions to all the Codes.

A number of challenges faced by our business can only be addressed by legislative change, offshore leakage being the most pressing. The NZ Racing Board will continue to develop relationships with Government and all political parties in the lead up to the next general election and beyond. It is vital the elected representatives of New Zealanders understand

the impact that erosion of our industry by offshore leakage is having on the country. Legislative change will significantly contribute to the future of our industry.

Sports betting presents a significant growth opportunity for the NZ Racing Board, and, through its contributions, for the entire racing sector. It also benefits thousands of New Zealand sports people through the levies paid to the 33 New Zealand Sports Organisations. The racing industry benefits from bets placed by the growing number of participating sports fans, through the financial distribution to the Codes.

Internally, our focus this year will be on delivering the seven key strategic initiatives that have been prioritised for 2012/13, although all 20 key initiatives outlined in our corporate strategy will be progressed to some degree.

We will make real progress towards achieving our vision to be the best entertainment business for New Zealand.

Delivering measurable results will support our five year strategic goals to:

- Deliver surplus of \$160 million-\$180 million
- Grow stakes by 50%
- Grow returns to owners by 50%
- Derive 30% turnover from new markets and products
- Reduce cost-to-income ratio to below 30%

For example, Broadcasting Strategy is one of our strategic initiatives. As well as preparing for the move to High Definition, we will agree content and channel strategies to address the challenges of delivering racing coverage across our two channels, Trackside and TAB TV. The majority of our customers currently have access to both channels and complain about the duplication and lack of pre and post-race coverage. Ultimately we will split live racing content across both channels, rather than duplicating, thus giving greater viewer choice and increased programming flexibility. This approach will maximise betting opportunities, lead to greater customer satisfaction and differentiate the two channels.

During their brief tenures both Alan Jackson and Alistair Ryan provided excellent leadership and support to the NZ Racing Board. Following an extensive search for a new Chair, Glenda Hughes was appointed and took up the position on 1 August 2013

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 Chair;
- Three members nominated by each of the three Racing Codes: New Zealand Thoroughbred Racing Inc; Harness Racing New Zealand Inc; and the New Zealand Greyhound Racing Association Inc; and
- Three members recommended by a nomination advisory panel, comprising the Minister for Racing, the NZ Racing 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.

At the start of the financial year five new Board members were appointed following the expiry of the tenure of their predecessors. At the same time Chris Bayliss took up position as Chief Executive, a new Chief Financial Officer, Stewart McRobie, was appointed. Highly qualified and having previously been CFO for ASB, Stewart brings extensive financial leadership and commercial acumen to the role. Previous Board member Liz Dawson returned to the Board and Alan Jackson, who was also on the previous Board, was appointed Chair by the Minister. As was widely reported in the media, Alan's tenure as Chair ceased in February 2013, following a High Court challenge to his appointment. Alistair Ryan was appointed as Deputy Chair and filled the Chair role for the remainder of the financial year.

During their brief tenures both Alan Jackson and Alistair Ryan provided excellent leadership and support to the NZ Racing Board. Following an extensive search for a new Chair, Glenda Hughes was appointed and took up the position on 1 August 2013.

The full Board currently consists of:

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

The Executive Leadership Team of the NZ Racing Board is:

- Chris Bayliss, Chief Executive
- Stewart McRobie, Chief Financial Officer
- Monique Cairns, Executive General Manager Strategy and Transformation
- Glenn Patrick, Executive General Manager TAB
- Martin Saunders, Chief Operating Officer (with responsibility for International growth)
- Emma Scott, Chief Talent Officer
- Colin Philp, Chief Information Officer



BOARD RESPONSIBILITIES

The NZ Racing Board meets regularly. The Chief Executive, whose responsibility is the day-to-day operations, also attends all meetings. The NZ Racing Board's key responsibilities are:

- Establish overall strategy, goals and associated business plans;
- Monitor performance against budget and other performance indicators;
- Ensure integrity and transparency in reporting;
- Communicate to stakeholders via the Combined Racing Industry Group (CRIG) meetings, annual Statement of Intent, Annual Report and other relevant reporting;
- Implement policies to enhance the NZ Racing Board's performance;
- Identify and manage business risks, including statutory compliance;
- Ensure appropriate internal controls are in place and enforced, and the quality and independence of the external audit function is maintained;
- Monitor management and performance, including responsibility for the appointment of the Chief Executive, review of operations, succession planning and delegations; and,
- Foster an organisational culture that ensures all Board members, management and staff adhere to high standards of ethics and corporate behaviour.

In accordance with Section 19 of the Racing Act 2003, the NZ Racing Board submits a Statement of Intent for the upcoming three financial years, setting out its overall objectives, intentions and financial and performance targets. After due consultation with racing stakeholders, the Statement of Intent is tabled at Parliament.

BOARD PROCESSES

The NZ Racing Board met 12 times during the year to 31 July 2013. Every meeting is subject to a formal agenda and reporting procedures. Agendas are prepared by the Chief Executive, in conjunction with the Chairperson.

The NZ Racing Board maintains an Interests Register in which the interests, including financial, of its members are recorded. Board Members are expected to manage any conflicts of interest responsibly and ethically, and to act 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 NZ Racing Board formally constituted four committees in 2012/13: the Dates Committee, the Audit and Risk Committee, the Compensation and Development Committee and the Net Proceeds Committee.

These committees support the NZ Racing Board by considering relevant issues at a detailed level and report back to the NZ Racing Board.

All committees are governed by charters setting out their roles and responsibilities, membership, functions, reporting procedures and the manner in which they operate. Committees report back to the NZ Racing Board by making recommendations, except where specific decision-making authority has been delegated by the NZ Racing 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 the dates in the racing year on which domestic betting races will occur;
- The allocation of those dates among Racing Clubs; and,
- any conditions of allocation.

Members of the Dates Committee are: Graham Cooney (Chair), Greg McCarthy, Rod Croon and Mauro Barsi.

AUDIT AND RISK COMMITTEE

The Audit and Risk Committee assists the NZ Racing Board with respect to the integrity of the Board's financial reporting systems, annual and half yearly financial statements and disclosures and IFRS compliance and audit confirmation, internal control environment, risk management practices and procedures. The Committee operates within the terms of its Charter which is subject to annual review and confirmation. The Committee meets regularly with the external auditor, PricewaterhouseCoopers, to ensure that appropriate testing, rigour and independence are being applied to the financial processes within the organisation.

The Audit and Risk Committee meets four times a year on a scheduled basis and more often if/as required. As at 31 July 2013, the committee comprised Alistair Ryan (Chair), Graham Cooney, Greg McCarthy and Rod Croon.

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 Racing Board Leadership Team. It also oversees management development and succession planning processes. The Compensation and Development Committee's members were: Rod Croon (Chair), Liz Dawson, Mauro Barsi and Alistair Ryan.

NET PROCEEDS COMMITTEE

The Net Proceeds Committee was established to allocate the proceeds of the Class 4 gaming activity to racing and amateur sports bodies for authorised purposes. At the end of the financial year, its members were: Liz Dawson (Chair), Alistair Ryan and Graham Cooney.

BOARD MEMBERS AND REMUNERATION

NUMBER OF MEETINGS						
	MEMBER'S REMUNERATION NZ\$	BOARD MEETINGS	AUDIT & RISK COMMITTEE	COMPENSATION & DEVELOPMENT COMMITTEE	DATES COMMITTEE	NET PROCEEDS COMMITTEE
Alan Jackson	42,625	6	-	1	-	1
Alistair Ryan	47,083	12	7	-	-	5
Mauro Barsi	42,250	12	-	2	2	-
Greg McCarthy	42,250	10	7	-	2	-
Rod Croon	47,250	11	7	2	1	-
Graham Cooney	47,250	12	7	-	2	5
Liz Dawson	42,250	10	-	1	-	4
NUMBER OF MEETINGS		12	7	2	2	5

EMPLOYEE REMUNERATION BANDING EQUAL TO OR OVER \$100K

The table below shows the number of employees and former employees of the NZ Racing Board, not being directors, who, in their capacity as employees, received remuneration and other benefits during FY12/13 of at least NZ\$100,000.

The remuneration figures shown include all monetary payments actually made during the year, excluding redundancies and including incentives. The table does not include amounts paid post 31 July 2013 that related to FY12/13.

NZ\$000	2013	2012*	NZ\$000	2013	2012*
100-110	10	13	250-260	1	-
110-120	5	17	260-270	-	1
120-130	13	15	280-290	2	-
130-140	14	7	300-310	2	-
140-150	4	1	350-360	1	2
150-160	5	4	360-370	-	1
160-170	3	2	400-410	-	-
170-180	3	-	410-420	-	1
180-190	1	1	430-440	1	-
190-200	1	1	640-650	1	-
200-210	1	-			
230-240	2	2	GRAND TOTAL	72	69

*The 2012 remuneration figures have been updated to reflect the remuneration received during FY12/13 excluding redundancies.

CLASS 4 GAMING

The following tables show the application and distribution of net proceeds from the NZ Racing Board's Class 4 Gambling operation. We are very proud to have been able to distribute a touch under \$10 million to our sports and racing authorised purposes.

RACING AUTHORISED PURPOSE	Amount Paid NZ\$
Thoroughbred Racing	3,140,000
Harness Racing	1,708,000
Greyhound Racing	891,449
Racing Integrity Unit	2,235,094
Racing Lab	552,000
JCA	541,665
TOTAL DISTRIBUTED TO RACING AUTHORISED PURPOSE	9,068,208

SPORTS AUTHORISED PURPOSE	Amount Paid NZ\$
AFC Fury	11,731
AFC Fury	52,000
Auckland Rugby League	20,000
Avalon Rugby Football Club	5,340
Badminton Canterbury	1,451
Badminton Canterbury	2,948
Bay Roskill Sports Club	1,203
Carlton Netball Club	10,000
Dunedin Ice Skating Club	2,000
Dunedin Rugby Football Club	9,697
Eastern Suburbs Cricket Club	4,000
Forrest Hill Milford United Football Club	9,949
Glendowie Tennis Club	12,886
Hawkes Bay Tenpin Bowling Foundation	2,000
Hibernian AFC	5,000
Hutt Valley Basketball Association	5,555
Hutt Valley Basketball Association	9,450
John Walker Find Your Field of Dreams Foundation	30,000

SPORTS AUTHORISED PURPOSE	Amount Paid NZ\$
Lyllall Bay Surf Life Saving Club	5,000
Mainland Ice Racing Club	2,967
Manawatu Indoor Bowls Centre	2,548
Martinborough Golf Club	35,000
Naenae Soccer Club	14,819
Netball Manawatu Centre	7,147
New Zealand Grand Prix Hydroplane Drivers Club	17,000
New Zealand Ice Hockey League	15,094
New Zealand Inline Hockey Association	36,000
New Zealand Mounted Games Association	10,035
No. 4 District Federation of NZ Soccer	9,783
North Shore Canoe and Youth Club	1,170
North Shore Rowing Club	4,300
Ocean Beach Kiwi Surf Lifesaving Club	3,990
Oratia United AFC	23,812
Parafed Manawatu	2,000
Parafed Wellington	12,911
Paremata Plimmerton Netball Club	7,528

SPORTS AUTHORISED PURPOSE	Amount Paid NZ\$
Paremata Plimmerton Rugby Football Club	57,533
Pioneer Basketball Club	2,000
Porirua Rowing Club	22,000
Porirua Synthetic Sports Field Trust	200,000
Rimutaka Inline Hockey Club	31,000
Southern Cross Taekwon-do Club	13,504
Special Olympics Kapiti	8,000
Special Olympics New Zealand	30,000
Special Olympics New Zealand	35,000
Special Olympics North Harbour	10,993
Special Olympics Tauranga	12,154
Special Olympics Te Awamutu	8,690
Special Olympics Wellington	5,000
St Clair Surf Life Saving Club	6,000

SPORTS AUTHORISED PURPOSE	Amount Paid NZ\$
Tu Nui a Te Ika Outrigger Canoe Club	15,000
University Mt. Wellington AFC	14,276
Upper Hutt Roller Skating Club	9,755
Valley Inline Speed Skating	15,450
Volleyball Bay of Plenty	8,580
Waikato Basketball Council	10,630
Waikato Basketball Council	12,362
Wainuiomata AFC	3,750
Wainuiomata Golf Club	8,000
Wainuiomata Rugby Football Club	26,287
Waterside Karori AFC	9,500
Wellington Rugby Football Union	30,000
TOTAL DISTRIBUTED TO RACING AUTHORISED PURPOSE	1,011,778

GRANTS RETURNED	Amount Returned NZ\$
Thoroughbred Racing	-32,428
Greyhound Racing	-16,449
Racing Lab	-161,000
JCA	-43,332
Badminton Canterbury	-194
Hutt Valley Basketball Association	-380
Millennium Institute	-1,250
Parafed Manawatu	-2,000
Special Olympics	-1,504
Waikato Basketball Council	-1,377
TOTAL RETURNED	-259,914

The application and distribution of net proceeds represent amounts paid and includes amounts accrued for in FY2012 and paid in FY2013. The amount distributed to sports authorised purposes disclosed in the financial statements is based on NZ IFRS accounting policies and therefore differs from that shown in the table above.

The NZ Racing Board also conducted three problem gambling workshops with sports leaders and sports teams, which were very well received and resulted in problem gambling information being relayed to other athletes, family and the wider community

RESPONSIBLE GAMBLING

One of the NZ Racing Board's most important statutory functions is to prevent and minimise harm from gambling. This is achieved through ensuring robust measures and procedures are in place, providing information and advice on problem gambling and providing expert training to all staff who sell betting products and oversee the Class 4 gaming machine areas.

FOCUS ON HARM PREVENTION AND MINIMISATION

For most customers, betting on racing and sports is a fun, safe and exciting pastime. However, some people are at risk from the impact of problem gambling and the NZ Racing Board is committed to the highest and most robust standards in addressing the issue by providing industry-leading programmes in partnership with the Ministry of Health, Department of Internal Affairs and problem gambling support providers.

Under the Gambling Act 2003, the TAB can only accept bets on racing and sports events and may also operate gaming machines. The legislation sets out strict harm prevention and minimisation obligations. The Gambling (Gambling Harm Reduction) Amendment Act 2013 was passed in September and imposes further obligations, particularly around the provisions of community grants. The NZ Racing Board believes its training programmes and harm minimisation procedures go above and beyond the statutory requirements set out in both Acts.

During the 2012/13 year, the NZ Racing Board's investment in responsible gambling measures was \$1.98 million (\$1.94 million in 2011/12). Of this, approximately \$1.86 million (\$1.82 million in 2011/12) was paid to the Crown to recover the costs of the Ministry of Health's problem gambling management services.

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

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 2012/13 approximately \$117,200 (\$117,400 in 2011/12) was invested in providing training in harm minimisation and prevention procedures for staff in customer-contact roles within the wider industry. This will assist in the identification of problem gambling behaviour and provide staff with the appropriate procedures to mitigate the effects.

Face-to-face classroom-based training of staff is conducted at regional centres by appropriate external facilitators on a regular basis. During the 2012/13 year, 578 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.

The NZ Racing Board also conducted three problem gambling workshops with sports leaders and sports teams, which were very well received and resulted in problem gambling information being relayed to other athletes, family and the wider community.



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 staff to request an exclusion from holding and using a TAB account or placing a bet at a TAB retail outlet, TAB operators are trained to identify and report matters requiring further investigation with regard to problem gambling behaviour. Furthermore, the NZ Racing Board conducts exception reporting, aimed at identifying any significant changes or concerns around the betting behaviour of account customers.

In the 2012/13 year, 226 customers were issued with exclusion notices (including self-exclusion), while 16 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 placement of a limit or cap on account betting activity.

The limitations on betting activity can be either a request to limit the amount of money 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 can be accepted on the nominated account for that week.

Changes to the agreed limits can only be made after consultation with the customer. To date, 64 account customers have taken advantage of the programme. Feedback from these customers has been overwhelmingly positive. The Set Your Limits programme has provided customers with a practical way of helping them control their betting behaviour while still allowing them the enjoyment of racing and sports bets.

CODE CHAMPIONS

THOROUGHBRED – OCEAN PARK



The 2012-13 five time Group 1 winner, Ocean Park, was the Thoroughbred Horse of the Year. The five-year-old won 5 of his 8 starts and \$3,433,272 in prize money. Three wins were at the highest level in Australia, the Cox Plate, Caulfield Stakes, and the Underwood. And his two wins against New Zealand's best, were in the Makfi Challenge Stakes and the Lindauer New Zealand Stakes. Retired from racing, Ocean Park is now standing in his first season as a sire at Waikato Stud.

OWNERS: Mr A Wong, Mr S Yan and Mr G Hennessy
TRAINER: Gary Hennessy
BREEDING: Thorn Park (Aus) / Sayyida (NZ)
BREEDER: Trelawney Thoroughbred Ltd – Brent and Cherry Taylor

HARNESS – TERROR TO LOVE



Leading pacer Terror to Love captured 8 wins from 14 starts as a 5 year old. For the second time in a row Terror to Love claimed the New Zealand Trotting Cup and is on target to claim his third this November. He also competed in the prestigious Harness Jewels and won the 5YO Emerald category as well as winning the Group 1 Easter Cup. We look forward to watching Terror to Love's performance over the next year and are sure he will amaze again.

OWNERS: McDonald Bloodstock Limited
TRAINER: Graham Court
BREEDING: Western Terror (USA) / Love to Live (NZ)
BREEDER: T McDonald

GREYHOUNDS – THRILLING BRAT



Despite being plagued by injuries, super star stayer Thrilling Brat went on a Group 1 winning spree when he emphatically won three staying races at the elite level last season. Included was his potent victory in the prestigious Duke Of Edinburgh Silver Collar. He raced on 15 occasions, which netted him 11 wins and a minor placing, resulting in \$93,516 in stakes.

OWNER: Gary Harding
TRAINER: Karen Walsh
BREEDING: Hallucinate (Aus) / Thrilling Faith (NZ)
BREEDER: Gary Harding



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FINANCIAL COMMENTARY



Stewart McRobie, *Chief Financial Officer*

Following the appointment of new Chief Financial Officer, Stewart McRobie, a review of the Finance function was carried out this financial year. New, strengthened financial control processes and frameworks

were introduced. Capability within the Finance team was increased and a number of key specialist functions were established to support commercialisation of the business; these included Tax & Treasury, Financial Reporting, Property and Procurement.

The Finance team has delivered a number of successes this year. Quality of information has improved, the 2012/13 financial statements were produced and audited in record time and this year's Annual Report is published well ahead of last years.

The overall financial results for the year were very pleasing, with record turnover and profit delivered across both Betting and Gaming. These results were achieved despite a number of significant challenges faced by the business, including an environment of intensifying offshore competition, a continuing decline in domestic Tote revenue, the absence of a major sporting event which boosted revenue in the prior year (the Rugby World Cup increased prior year turnover by \$30.0 million) and 12 race cancellations due to extreme weather.

The NZ Racing Board has achieved a total Net Profit of \$144.1 million for the 2013 year which was \$16.9 million or 13% above the 2012 equivalent. The result was comprised of a \$135.3 million Net Betting Profit and an \$8.8 million Net Gaming Profit. As well as being above the 2012 net profit, these results also exceeded the revised and increased 2012–15 Statement of Intent net profit targets for each of Betting (at \$135.0 million) and Gaming (at \$7.5 million), which were released in December 2012.

The result for 2012 was impacted by the write off of the Typhoon project, with a cost of \$11.1 million. After excluding both this and the higher income as a result of the Rugby World Cup in 2012, 2013 net profit was \$8.8 million or 6% up on the prior year. Although restructuring costs have been incurred to reposition the business in 2013, these have been largely offset by adjustments arising from a review of NZ Racing Board assets and liabilities which took place over the course of 2013.

This year's financial results include disclosure of Gaming turnover for the first time, which in previous years, was not reported.

Key features of the 2013 results were as follows:

TURNOVER

Betting turnover above last year by \$97.2 million or 6% despite 2012 turnover being boosted by \$30.0 million as a result of the Rugby World Cup. After excluding this, turnover was 8% above the prior year.

Gaming turnover was 23% ahead of the prior year reflecting the full year impact of increased Gaming sites.

INCOME

Net Betting Revenue was \$9.9 million or 4% above the prior year and this rate of increase is below the growth in turnover as a result of the increased proportion of lower margin fixed odds business and a declining relative share of higher margin tote business.

Net Gaming Revenue was \$2.9 million or 25% above the prior year as a result of the full year impact of increased Gaming sites boosting revenue.

Other income was \$1.3 million or 3% below the prior year as declining miscellaneous revenue, interest income and foreign exchange gains all impacted the result this year.

As a result of the above, total income was \$11.4 million or 4% above the prior year.

EXPENSES

Turnover related expenses were \$2.1 million or 5% above the prior year and the level of increase closely approximates the increase in Betting and Gaming turnover.

Operating expenses were \$7.5 million or 6% below the prior year. This decrease was mainly the result of the \$11.1 million impairment taken in 2012, offset by the following items; impact in 2013 of restructuring costs incurred to reposition the business to increase capability and to grow going forward, a balance sheet account reconciliation that took place during the year and a base increase in staff expenses.

Total expenses were \$5.4 million or 3% below the prior year as a result of the above.

Total distributions made from current year profit for the year at \$142.4 million were above the prior year by \$6.6 million or 5% with increased distributions to both the racing industry and sporting codes.

THE COMING YEAR

As outlined in the Statement of Intent 2013–16, the NZ Racing Board has set itself an ambitious target of \$149.1 million net profit before distributions. Whilst this target is challenging given the continuing change agenda and challenging operating environment, it is also viewed as achievable based on the introduction of a number of initiatives that will increase turnover and margin.

STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 JULY 2013

	Note	2013 NZ\$000	2012 NZ\$000
Betting and gaming turnover	2a	1,956,824	1,814,012
INCOME			
Net betting revenue	2b	243,515	233,600
Net gaming revenue	2c	14,169	11,310
Other income	3	46,829	48,159
TOTAL INCOME		304,513	293,069
TURNOVER RELATED EXPENSES	4	44,736	42,602
OPERATING EXPENSES			
Premises and equipment expenses	5	27,515	27,086
Staff expenses	5	54,979	47,857
Other expenses	5	33,174	48,265
TOTAL OPERATING EXPENSES		115,668	123,208
TOTAL EXPENSES		160,404	165,810
NET PROFIT BEFORE DISTRIBUTIONS		144,109	127,259
Distributions	15	142,390	135,777
Provision for undistributed Gaming surplus	14	1,514	3,037
NET PROFIT/(LOSS) AFTER DISTRIBUTIONS		205	(11,555)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		205	(11,555)
Total comprehensive income attributable to:			
NZ Racing Board reserves		205	(11,555)

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

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 JULY 2013

	General reserve NZ\$000
Balance as at 1 August 2011	80,809
Net loss after distributions	(11,555)
Balance as at 31 July 2012	69,254
Net profit after distributions	205
Balance as at 31 July 2013	69,459

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

STATEMENT OF FINANCIAL POSITION

AS AT 31 JULY 2013

	Note	2013 NZ\$000	2012 NZ\$000
CURRENT ASSETS			
Cash and cash equivalents	6	26,262	11,562
Trade and other receivables	7	11,960	8,888
Other financial assets	8	32,000	44,120
Other current assets		678	2,024
TOTAL CURRENT ASSETS		70,900	66,594
NON-CURRENT ASSETS			
Property, plant and equipment	9	40,412	45,192
Intangible assets	10	7,469	8,949
Other financial assets	8	2,951	4,741
TOTAL NON-CURRENT ASSETS		50,832	58,882
TOTAL ASSETS		121,732	125,476
CURRENT LIABILITIES			
Trade and other payables	11	21,817	20,474
Customer betting account deposits and vouchers	13	16,649	16,594
Other financial liabilities	12	5,368	6,176
Taxation payable		2,889	7,117
Provisions	14	3,253	3,263
TOTAL CURRENT LIABILITIES		49,976	53,624
NON-CURRENT LIABILITIES			
Other financial liabilities	12	1,565	1,597
Provisions	14	732	1,001
TOTAL NON-CURRENT LIABILITIES		2,297	2,598
TOTAL LIABILITIES		52,273	56,222
NET ASSETS		69,459	69,254
EQUITY			
GENERAL RESERVE		69,459	69,254

The members of the New Zealand Racing Board Board authorised these financial statements for issue on 27 September 2013.



Glenda Hughes
Chair of the New Zealand Racing Board



Alistair Ryan
Chair 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 2013

	2013 NZ\$000	2012 NZ\$000
CASH FLOWS FROM OPERATING ACTIVITIES		
INFLOWS		
Betting and gaming turnover	1,957,127	1,813,843
International racing fees and other income	30,454	32,063
Racing services income	15,140	14,518
Jackpot retentions and account deposits (net)	33	999
	2,002,754	1,861,423
OUTFLOWS		
Betting and Gaming dividends paid	(1,641,463)	(1,513,671)
Goods and services tax (net)	(41,692)	(38,367)
Betting and Gaming duty paid	(19,033)	(16,150)
National sporting organisations grants	(4,009)	(3,686)
Payments to suppliers	(90,813)	(90,344)
Payments for employee benefits including termination payments	(53,392)	(46,544)
Distributions to the Racing Codes	(132,124)	(125,281)
Racing industry initiatives	(1,835)	(1,879)
Payments for Racing industry costs	(9,370)	(5,693)
Gaming distribution to external bodies	(1,008)	(699)
	(1,994,739)	(1,842,314)
NET CASH PROVIDED BY OPERATING ACTIVITIES	8,015	19,109
CASH FLOWS FROM INVESTING ACTIVITIES		
INFLOWS		
Repayment of short-term deposits on maturity	8,004	31
Interest received	2,117	2,184
Proceeds from sale of property, plant and equipment	468	1,061
Repayments of club loans	6,116	616
	16,705	3,892
OUTFLOWS		
Investment of short-term deposits	-	(8,004)
Purchases of property, plant and equipment	(8,504)	(10,978)
Purchase of intangible assets	(1,147)	(3,821)
	(9,651)	(22,803)
NET CASH PROVIDED BY / (USED IN) INVESTING ACTIVITIES	7,054	(18,911)
CASH FLOWS FROM FINANCING ACTIVITIES		
INFLOWS		
Drawdown on secured loan	-	1,500
OUTFLOWS		
Interest paid	(137)	(157)
NET CASH (USED IN) / PROVIDED BY FINANCING ACTIVITIES	(137)	1,343
NET INCREASE IN CASH AND CASH EQUIVALENTS	14,932	1,541
Cash and cash equivalents as at the beginning of the year	11,562	10,002
Foreign exchange (loss) / gain on cash and cash equivalents	(232)	19
CASH AND CASH EQUIVALENTS AS AT THE END OF THE YEAR	26,262	11,562

The movements in Jackpot retentions and in GST have been shown on a net basis in the Statement of Cash Flows as the transactions are settled within a short period of time.

The movements in Account Betting Deposits have been shown on a net basis in the Statement of Cash Flows as these movements represent customer account balances rather than transactions of the New Zealand Racing Board.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2013

BASIS OF PREPARATION

Reporting entity and statutory base

The New Zealand Racing Board ("NZ Racing Board") is a statutory body established by the Racing Act 2003. Customer betting accounts and betting vouchers offered are debt securities within the meaning of the Securities Act 1978 and the NZ Racing Board is therefore an 'issuer' for the purposes of the Financial Reporting Act 1993. The NZ Racing Board is domiciled in New Zealand.

The principle objectives of the NZ Racing Board as outlined in the Racing Act 2003, 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.

Statement of compliance

These financial statements are prepared in accordance with generally accepted accounting practice in New Zealand, as required under the Racing Act 2003 and the Financial Reporting Act 1993. They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) as appropriate for profit-oriented entities. They comply with International Financial Reporting Standards.

Basis of measurement

These financial statements have been prepared on the historical cost basis. Cost is based on the fair value of the consideration given in exchange.

The financial statements are Parent and Group financial statements. The Group comprises the NZ Racing Board 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 the NZ Racing Board as Trustee.

Changes in accounting policies

There have been no changes in accounting policies during the year. The accounting policies have been adopted consistently throughout the period presented in the financial statements.

Prior period comparatives

Certain prior period comparatives have been reclassified to conform to the current period presentation.

New standards and interpretations issued

The financial statements have been drawn up on the basis of accounting Standards, Interpretations and Amendments effective at the beginning of the accounting period on 1 August 2012.

The NZ Racing Board has concluded that there are no relevant Standards or Interpretations in issue that are not yet adopted that will have a material impact on the NZ Racing Board's financial statements, other than NZ IFRS 9 Financial Instruments. NZ IFRS 9 replaces parts of IAS 39 Financial Instruments: Recognition and Measurement that relate to the classification and measurement of financial instruments. Adoption of this standard will mean that the NZ Racing Board will no longer have assets classified as held to maturity.

Critical accounting estimates and assumptions

The NZ Racing Board has determined that there are no critical judgements in applying accounting policies that have a significant effect on the amounts recognised in the financial statements.

The preparation of the financial statements in conformity with NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes.

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 31 JULY 2013

Intangibles and Property, Plant and Equipment

Assessing the appropriateness of useful life and residual value estimates of network assets requires a number of factors to be considered such as the physical condition of the asset and expected period of use of the asset by the NZ Racing Board.

Provisions and contingent liabilities

Preparation of financial statements requires the NZ Racing Board to make assessments over the existence of provisions and contingent liabilities. Key judgements include the probability of an obligating event occurring and estimating future cash outflows. Actual results may differ from estimates.

Consolidation

The consolidated financial statements incorporate the assets and liabilities of all material entities controlled by the NZ Racing Board as at 31 July 2013 and the results of the operations of such entities for the year then ended. The NZ Racing Board and such entities are together referred to in these financial statements as the NZ Racing Board.

Controlled entities are those entities over which the NZ 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 NZ Racing Board.

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

Taxes

The NZ Racing Board is exempt from New Zealand income tax pursuant to section CW 47 of the Income Tax Act 2007.

The following taxes, duties, levies and similar charges are paid by the NZ Racing Board:

- Betting duty of 4 cents in the dollar on Gross Betting Revenue
- Gaming machine duty of 20 cents in the dollar on Gross Gaming Revenue
- Problem Gambling levy of 0.6 ^[1] cents in the dollar on Gross Betting Revenue and 1.31 ^[1] cents in the dollar on Gross Gaming Revenue
- Goods and services tax (GST) charged on GST-inclusive Gross Betting Revenue and Gross Gaming Revenue
- Broadcasting levy of 0.00051 cents in the dollar of revenue from broadcasting in New Zealand
- Fringe benefit tax (FBT)
- Accident Compensation Commission (ACC) levies
- Compulsory KiwiSaver employer contributions
- Property Taxes including local body rates

^[1] The Gambling (Problem Gambling Levy) Regulations 2013 amended the rate of Problem Gambling Levy with effect from 1 July 2013. Prior to 1 July 2013 the applicable rates were 0.51 cents and 1.48 cents respectively.

The NZ Racing Board may be subject to foreign income tax on certain income earned overseas.

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 31 JULY 2013

1. OPERATING SEGMENTS

The NZ Racing Board has two operating segments:

- **Betting operations** – operations relating to providing totalisator and fixed odds betting for racing and sports. Betting operations includes broadcasting and racing services provided to the Racing Codes.
- **Gaming operations** – operations relating to the provision of Gaming activities.

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

The NZ Racing Board's Chief Executive has been identified as the NZ Racing Board's chief decision maker for the purpose of applying segment reporting. The segment results disclosed are based on those segments reported to the Chief Executive and used by the NZ Racing Board to analyse its business. Additions to non-current assets are not reported to the Chief Executive and are therefore not separately disclosed within the segment reporting. Further geographical information in relation to Sport and Gaming turnover is not reported to the Chief Executive and is therefore also excluded from the geographical revenue information below.

Year ended 31 July 2013	Betting NZ\$000	Gaming NZ\$000	Total NZ\$000
Total turnover	1,716,504	240,320	1,956,824
Interest income	2,050	85	2,135
Interest expense	(88)	(49)	(137)
Depreciation & amortisation	(11,689)	(1,167)	(12,856)
Impairment expense	(928)	-	(928)
Net profit before distributions	135,346	8,763	144,109
Total assets	116,609	5,123	121,732
Total liabilities	47,150	5,123	52,273
Geographical revenue information:			
Racing turnover generated in NZ			799,927
Racing turnover revenue generated in Australia			630,106
Racing turnover revenue generated in other overseas countries			40,380
TOTAL BETTING TURNOVER – RACING			1,470,413

Year ended 31 July 2012	Betting NZ\$000	Gaming NZ\$000	Total NZ\$000
Total turnover	1,619,339	194,673	1,814,012
Interest income	2,009	54	2,063
Interest expense	(117)	(40)	(157)
Depreciation & amortisation	(12,554)	(839)	(13,393)
Impairment expense	(11,054)	-	(11,054)
Net profit before distributions	120,425	6,834	127,259
Total assets	119,044	6,432	125,476
Total liabilities	49,790	6,432	56,222
Geographical revenue information:			
Racing turnover generated in NZ			782,740
Racing turnover revenue generated in Australia			554,788
Racing turnover revenue generated in other overseas countries			36,154
TOTAL BETTING TURNOVER – RACING			1,373,682

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 31 JULY 2013

2. REVENUE

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

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

Gaming turnover is the gross proceeds derived from gaming machines. The NZ Racing Board holds a licence to operate gaming machines issued by the Department of Internal Affairs under the Gambling (Class 4 Net Proceeds) Regulations 2004.

Betting and Gaming turnover is measured at the fair value of the consideration received, net of any refunds and rebates, and inclusive of GST.

Dividends payable on Betting and Gaming operations are recognised once the event has resulted, at the fair value of the consideration to be paid. Any unclaimed dividends on totalisator and fixed odds revenue are recognised as unpaid dividends within other financial liabilities. Dividends paid on Gaming turnover represents payouts to customers from the gaming machines, including jackpot payouts.

Net Betting and Gaming revenue represent the net win or loss to the NZ Racing Board. Net Betting and Gaming revenue is comprised of turnover less dividends paid or payable, less duties and GST.

Problem gambling levies and Betting and Gaming machine duties are considered sales taxes, and are therefore included within Net Betting and Gaming revenue, consistent with GST.

	2013 NZ\$000	2012 NZ\$000
2a. TURNOVER (including GST)		
Betting turnover – racing totalisator	1,216,192	1,184,152
Betting turnover – racing fixed odds	254,221	189,530
Total betting turnover – Racing	1,470,413	1,373,682
Betting turnover – sports totalisator	2,605	1,475
Betting turnover – sports fixed odds	243,486	244,182
Total betting turnover – Sports	246,091	245,657
Total betting turnover	1,716,504	1,619,339
Gaming turnover	240,320	194,673
TOTAL BETTING AND GAMING TURNOVER	1,956,824	1,814,012
2b. NET BETTING REVENUE		
Total betting turnover	1,716,504	1,619,339
Less: dividends payable	(1,422,219)	(1,336,388)
Gross betting revenue	294,285	282,951
Betting duty (4%)	(10,873)	(11,243)
GST (15%)	(38,356)	(36,541)
Problem gambling levy	(1,541)	(1,567)
NET BETTING REVENUE	243,515	233,600
2c. NET GAMING REVENUE		
Gaming turnover	240,320	194,673
Less: dividends paid	(218,685)	(177,399)
Gross gaming revenue	21,635	17,274
Gaming machine duty (20%)	(4,327)	(3,455)
GST (15%)	(2,822)	(2,253)
Problem gambling levy	(317)	(256)
NET GAMING REVENUE	14,169	11,310

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 31 JULY 2013

3. OTHER INCOME

Foreign exchange gains represent the net realised and unrealised gains and losses arising on transactions and balances held in foreign currency.

Income subject to broadcasting levies is advertising income earned on the NZ Racing Board's Trackside TV channel and Radio Trackside and is subject to levies under the Broadcasting Act 1989.

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

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

Racing services income represents income earned by the NZ Racing Board from providing on-course race day services to Racing Clubs. Racing services income is recognised at the time that the racing event takes place.

All other income is measured at the fair value of the consideration given.

	2013 NZ\$000	2012 NZ\$000
Foreign exchange gains	397	614
Income subject to broadcasting levies	775	996
Interest income	2,135	2,063
NZ racing shown overseas revenue	23,587	22,952
Racing services income	15,140	14,518
Other income	4,795	7,016
TOTAL OTHER INCOME	46,829	48,159

4. TURNOVER RELATED EXPENSES

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

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

Outlet and agency fees are commissions paid to non-NZ Racing Board owned outlets for providing TAB services. The fees are based on a percentage of the turnover earned by the outlet, including certain incentive payments.

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

	2013 NZ\$000	2012 NZ\$000
Commingle fee	2,378	2,045
National sporting organisations grants	3,816	3,982
Outlet and agency fees	15,346	15,850
Overseas racing rights	20,716	18,145
Thermal paper and betting slips	1,394	1,462
Other turnover related expenses	1,086	1,118
TOTAL TURNOVER RELATED EXPENSES	44,736	42,602

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 31 JULY 2013

5. OPERATING EXPENSES

	2013 NZ\$000	2012 NZ\$000
Salaries and wages	49,016	44,097
Termination payments	2,582	759
Other staff expenses	3,381	3,001
TOTAL STAFF EXPENSES	54,979	47,857
Depreciation and amortisation	12,856	13,393
Rent	6,341	4,963
Repairs and maintenance	4,152	4,746
Other premises and equipment expenses	4,166	3,984
TOTAL PREMISES AND EQUIPMENT EXPENSES	27,515	27,086
Advertising	4,544	5,169
Auditors remuneration		
– Audit and other assurance fees ¹	117	84
– Other services ²	4	1,023
Broadcasting costs	6,701	7,833
Consultancy	2,663	2,201
Data and telecommunications	4,339	5,361
Gain on disposal of property, plant and equipment and intangibles	(787)	(281)
Impairment on property, plant and equipment and intangibles	928	11,054
Insurance	1,661	1,676
Interest	137	157
Printing and stationery	914	1,025
Publications	3,696	3,959
Travel and accommodation	2,018	1,858
Venue costs	143	139
Other operating expenses	6,096	7,007
TOTAL OTHER EXPENSES	33,174	48,265

¹ Audit and other assurance services in the current year includes fees for review of the half-year financial statements.

² In 2012, other services paid to Auditors related to a review of the wagering system covering programme management, business process documentation, identification of project risks and issues, and consideration of options with regard to feasibility of the project.

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 31 JULY 2013

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand, cash at bank and call deposits with a maturity of less than three months. There are no cash or call deposit balances held by the NZ Racing Board that are not available for use. The carrying values of cash and cash equivalents approximate their fair values. The maximum credit exposure is limited to the carrying value of cash and call deposits. Cash denominated in foreign currencies is translated into New Zealand dollars at the spot rate at the reporting date. All differences arising on settlement or translation of monetary items are taken to the profit or loss and included within other income.

	2013 NZ\$000	2012 NZ\$000
Cash and cash equivalents - New Zealand currency	25,352	9,667
Cash and cash equivalents - Foreign currencies	910	1,895
TOTAL CASH AND CASH EQUIVALENTS	26,262	11,562

7. TRADE AND OTHER RECEIVABLES

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

Included within trade and other receivables are the amounts owed to the NZ Racing Board from retail outlets. The retail outlets are required to settle on a weekly basis. The NZ 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 and other receivables are non-interest bearing and are generally on terms of 30 days or less.

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

	2013 NZ\$000	2012 NZ\$000
Trade and other receivables	12,053	8,926
Provision for doubtful debts	(93)	(38)
TOTAL TRADE AND OTHER RECEIVABLES	11,960	8,888

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 31 JULY 2013

7. TRADE AND OTHER RECEIVABLES (CONT)

Trade receivables

The average period outstanding on sales of goods and services is 47 days (2012: 49 days). No interest is charged on trade receivables past due date.

An analysis of the ageing of past due trade debtors is outlined below:

	1 – 29 days NZ\$000	30 – 59 days NZ\$000	60 – 89 days NZ\$000	90+ days NZ\$000	Total NZ\$000
2013					
Not past due nor impaired	11,587	-	-	-	11,587
Past due and not impaired	-	78	42	346	466
Provision for doubtful debt allowance	-	-	-	(93)	(93)
TOTAL TRADE AND OTHER RECEIVABLES	11,587	78	42	253	11,960
	1 – 29 days NZ\$000	30 – 59 days NZ\$000	60 – 89 days NZ\$000	90+ days NZ\$000	Total NZ\$000
2012					
Not past due nor impaired	8,083	-	-	-	8,083
Past due and not impaired	-	362	130	351	843
Provision for doubtful debt allowance	-	-	-	(38)	(38)
TOTAL TRADE AND OTHER RECEIVABLES	8,083	362	130	313	8,888

8. OTHER FINANCIAL ASSETS

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

Where Racing 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.

Short-term deposits and corporate bonds are classified as held-to-maturity as these are considered to have fixed or determinable payments and fixed maturity and the NZ Racing Board has the intention of holding to maturity.

Betting Accounts and Betting Vouchers Trust short-term deposits are funds held in trust to cover the balances of the customer betting account deposits and vouchers liability. The total owed to customers of betting account deposits and vouchers at 31 July 2013 is \$16.6 million (2012: \$16.6 million). Refer to note 13 for further information regarding the NZ Racing Board's obligation for these amounts. The deposits held in trust are not available for use by the NZ Racing Board in the ordinary course of business.

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 31 JULY 2013

8. OTHER FINANCIAL ASSETS (CONT)

	2013 NZ\$000	2012 NZ\$000
Corporate Bonds	2,000	2,000
Loans to Racing Clubs	2,951	8,857
Short-term deposits – Betting Accounts and Vouchers Trust	20,000	20,004
Short-term deposits	10,000	18,000
TOTAL OTHER FINANCIAL ASSETS	34,951	48,861
Disclosed as:		
Current	32,000	44,120
Non-current	2,951	4,741
TOTAL OTHER FINANCIAL ASSETS	34,951	48,861

	2013 NZ\$000	2012 NZ\$000
Loans to Racing Clubs		
New Zealand Metropolitan Trotting Club (Inc)	-	6,003
RACE Inc	2,931	2,813
Wanganui Greyhound Racing Club	-	22
Whangarei Racing Club Inc	20	19
LOANS TO CLUBS AND CODES	2,951	8,857

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 adjustment NZ\$000	Loan balance outstanding NZ\$000
2013			
RACE Inc	2,931	67	2,998
Whangarei Racing Club Inc	20	-	20
LOANS TO RACING CLUBS	2,951	67	3,018
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 RACING CLUBS	8,857	270	9,127

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

	Interest rate		Rate type
	2013	2012	
RACE Inc	3.50%	3.50%	Variable
Whangarei Racing Club Inc	2.88%	2.88%	Variable

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 31 JULY 2013

8. OTHER FINANCIAL ASSETS (CONT)

Collateral

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

The NZ 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 ("BNZ") 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 NZ Racing Board charges as at 31 July 2013 was \$31.5 million (31 July 2012: \$33.1 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 NZ 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 to be made to it by the NZ Racing Board until repaid.

While the contractual terms of the loan agreement with RACE Inc states repayment of the loan on February 2014, it is expected the repayment will not occur on this date and a loan extension will be sought by RACE Inc. Accordingly, the NZ Racing Board considers it appropriate to continue to recognise the loan as a non-current receivable.

The New Zealand Metropolitan Trotting Club and Wanganui Greyhound Racing Club loans were repaid in full during the 2013 year.

9. PROPERTY, PLANT AND EQUIPMENT

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

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

Depreciation is calculated on a straight-line basis so as to allocate the cost of each asset over its expected useful life to its estimated residual value. Depreciation is recognised within 'premises and equipment expenses' in the profit or loss. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter. Land is not depreciated. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each period.

The current annual depreciation rates are as follows:

Buildings (at deemed cost)	2.5% - 10.0%
Leasehold improvements	6.7% - 20.0%
Computer hardware	14.3% - 33.3%
Motor vehicles	14.3% - 33.3%
Operations and trackside equipment	14.3% - 20.0%
Gaming machines	33.0%
Other (mainly consists of laboratory equipment, furniture and office equipment)	10.0% - 20.0%

Any gain or loss on disposal, which is calculated as the difference between the net proceeds from disposal and the carrying amount of the item, is recognised in profit or loss within 'other expenses'.

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

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 31 JULY 2013

9. PROPERTY, PLANT AND EQUIPMENT (CONT)

	Land and buildings NZ\$000	Leasehold improvements NZ\$000	Computer hardware NZ\$000
AS AT 1 AUGUST 2011			
At cost	16,494	21,661	41,134
Accumulated depreciation	(5,218)	(13,009)	(33,759)
CARRYING AMOUNT	11,276	8,652	7,375
Additions	150	4,239	2,851
Disposals	(575)	(141)	(17)
Net change to work in progress	-	-	-
Depreciation for the year	(493)	(2,385)	(3,061)
CARRYING AMOUNT AT 31 JULY 2012	10,358	10,365	7,148
At cost	15,771	25,172	40,353
Accumulated depreciation	(5,413)	(14,807)	(33,205)
CARRYING AMOUNT	10,358	10,365	7,148
Additions	27	576	9
Disposals	(2,294)	(1)	(23)
Net transfers between asset classes	-	19	2
Transferred from work in progress	173	669	2,214
Depreciation for the year	(480)	(2,530)	(2,730)
Impairment losses	-	(85)	(34)
CARRYING AMOUNT AT 31 JULY 2013	7,784	9,013	6,586
At cost	13,047	26,038	42,302
Accumulated depreciation	(5,263)	(17,025)	(35,716)
CARRYING AMOUNT	7,784	9,013	6,586

At 31 July 2013 the contractual commitment for acquisition of property, plant and equipment was \$0.1 million (2012: nil).
There are no restrictions on property, plant and equipment assets or any assets pledged as securities for liabilities.

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 31 JULY 2013

Motor vehicles NZ\$000	Operations and trackside equipment NZ\$000	Gaming machines NZ\$000	Other NZ\$000	Work in progress NZ\$000	Total property, plant and equipment NZ\$000
3,045 (2,521)	38,463 (26,384)	- -	4,828 (3,077)	6,380 -	132,005 (83,968)
524	12,079	-	1,751	6,380	48,037
816 (33) - (364)	1,144 (18) - (3,655)	2,860 - - (725)	158 - - (336)	- - (3,260) -	12,218 (784) (3,260) (11,019)
943	9,550	2,135	1,573	3,120	45,192
3,359 (2,416)	36,341 (26,791)	2,860 (725)	4,847 (3,274)	3,120 -	131,823 (86,631)
943	9,550	2,135	1,573	3,120	45,192
521 - - 507 (356) -	129 - (19) 727 (3,481) -	1,209 (70) - - (994) -	17 - (2) 147 (318) (95)	6,042 - 292 (4,437) - (111)	8,530 (2,388) 292 - (10,889) (325)
1,615	6,906	2,280	1,322	4,906	40,412
3,993 (2,378)	37,152 (30,246)	3,876 (1,596)	4,666 (3,344)	4,906 -	135,980 (95,568)
1,615	6,906	2,280	1,322	4,906	40,412

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 31 JULY 2013

10. INTANGIBLE ASSETS

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

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

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

The current annual amortisation rates are as follows:

Software	14.3% – 33.3%
Broadcasting licences	5.0% – 20.0%

Any gains or losses on disposal, which is calculated as the difference between the net proceeds from disposal and the carrying amount of the item, is recognised in the profit or loss within 'other income' or 'other expenses' as appropriate.

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

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 31 JULY 2013

10. INTANGIBLE ASSETS (CONT)

	Software NZ\$000	Broadcasting licences NZ\$000	Other intangible assets NZ\$000	Work in progress NZ\$000	Total intangible assets NZ\$000
AS AT 1 AUGUST 2011					
At cost	44,594	2,530	4,844	11,249	63,217
Accumulated amortisation	(40,067)	(1,270)	(4,550)	-	(45,887)
CARRYING AMOUNT	4,527	1,260	294	11,249	17,330
Additions	2,908	913	-	-	3,821
Disposals	(1)	-	-	-	(1)
Net change to work in progress	-	-	-	1,228	1,228
Amortisation for the year	(2,196)	(179)	-	-	(2,375)
Impairment losses	-	-	-	(11,054)	(11,054)
CARRYING AMOUNT AT 31 JULY 2012	5,238	1,994	294	1,423	8,949
At cost	47,454	3,441	4,844	1,423	57,162
Accumulated amortisation	(42,216)	(1,447)	(4,550)	-	(48,213)
CARRYING AMOUNT	5,238	1,994	294	1,423	8,949
Additions	6	-	-	1,433	1,439
Disposals	-	-	-	-	-
Net transfers between asset classes	-	-	-	(292)	(292)
Transferred from work in progress	1,490	-	-	(1,490)	-
Amortisation for the year	(1,847)	(178)	-	-	(2,025)
Impairment losses	(89)	-	(294)	(219)	(602)
CARRYING AMOUNT AT 31 JULY 2013	4,798	1,816	-	855	7,469
At cost	48,448	3,441	4,844	855	57,588
Accumulated amortisation	(43,650)	(1,625)	(4,844)	-	(50,119)
CARRYING AMOUNT	4,798	1,816	-	855	7,469

Work in progress relates mainly to internally generated software.

At 31 July 2013 the contractual commitment for acquisition of software and other intangibles was nil (2012: \$0.2 million).

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

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 31 JULY 2013

11. TRADE AND OTHER PAYABLES

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

Employee entitlement liabilities for wages and salaries, annual leave and other contractual payments expected to be settled within 12 months of the reporting date are recognised in other payables, in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

	2013 NZ\$000	2012 NZ\$000
Accruals	6,410	7,218
Amounts payable to Board members	22	33
Employee entitlements	3,123	3,579
Racing Code distributions payable	6,206	4,403
Trade payables	6,056	5,241
TOTAL TRADE AND OTHER PAYABLES	21,817	20,474

No interest is incurred on trade payables unless the amounts payable fall overdue. Interest is charged at the discretion of the vendor. The NZ Racing Board has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

12. OTHER FINANCIAL LIABILITIES

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

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

Unresulted turnover represents open totalisator and fixed odd betting positions. Open betting positions are those where customers have placed bets and where at balance date the event to which the bet relates has not occurred. These open betting positions are considered derivative financial instruments for financial reporting purposes. Unresulted turnover is initially measured at fair value on the date the bet is placed. Fair value is the amount placed on the bet. Subsequently, derivative financial instruments are re-valued to their fair value at each reporting date. The NZ Racing Board has determined that the value of the balance upon initial recognition approximates fair value at 31 July 2013.

	2013 NZ\$000	2012 NZ\$000
Contributions to assets by Racing Codes	97	129
Jackpot retentions	1,578	2,147
Secured bank loan	1,500	1,500
Unpaid dividends	2,879	2,892
Unresulted turnover	879	1,105
TOTAL OTHER FINANCIAL LIABILITIES	6,933	7,773
Disclosed as:		
Current	5,368	6,176
Non-current	1,565	1,597
TOTAL OTHER FINANCIAL LIABILITIES	6,933	7,773

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 31 JULY 2013

13. CUSTOMER BETTING ACCOUNT DEPOSITS AND VOUCHERS

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

The customer betting account deposits and vouchers liability is non-interest bearing.

The liability is derecognised when either a deposit or voucher is redeemed or used to place a bet, or in accordance with the Betting Rules the betting account or voucher is deemed inactive.

14. PROVISIONS

Provisions are recognised when the following three conditions are met:

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

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

	Make good NZ\$000	Employee benefit NZ\$000	Redundancy NZ\$000	Undistributed Gaming surplus NZ\$000	Total provisions NZ\$000
BALANCE 1 AUGUST 2011	481	700	-	-	1,181
Additional provisions	123	53	-	3,037	3,213
Provisions released	(11)	(35)	-	-	(46)
Amounts used	(6)	(78)	-	-	(84)
BALANCE AT 31 JULY 2012	587	640	-	3,037	4,264
Additional provisions	133	73	1,211	1,514	2,931
Provisions released	(7)	(46)	-	-	(53)
Amounts used	(56)	(64)	-	(3,037)	(3,157)
BALANCE AT 31 JULY 2013	657	603	1,211	1,514	3,985
				2013 NZ\$000	2012 NZ\$000
Disclosed as:					
Current				3,253	3,263
Non-current				732	1,001
TOTAL PROVISIONS				3,985	4,264

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 31 JULY 2013

14. PROVISIONS (CONT)

(a) Provision for make good

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. 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.

(b) Provision for employee benefits

The provision for employee benefits includes long-term employee benefits and sick leave provision.

The NZ 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.

A provision for sick leave 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.

(c) Redundancy provision

During the current year the NZ Racing Board committed to a plan to restructure the Phonebet operations located in Auckland. Following the announcement of the plan, the NZ Racing Board recognised a provision for expected redundancy costs, representing employee termination benefits. Estimated costs were based on the terms of the relevant contracts. The provision is expected to be utilised within the next 12 months.

(d) Undistributed Gaming surplus

As at 31 July 2013, undistributed surplus relating to the Gaming operations totalled \$1.514 million (2012: \$3.037 million). As all Class 4 Gaming surpluses must be distributed for authorised purposes and cannot be retained within the business, a provision has been made for future distribution.

15. DISTRIBUTIONS

The NZ Racing Board's net profit from Betting operations is distributed to the Racing Industry in accordance with the Racing Act 2003.

Distributions are recognised in the profit or loss, after net profit.

Distribution payments include a base funding component which is made directly to the Racing Codes. These base funding distributions are based on funding agreements and determined by Racing Code market share of the individual Racing Codes races run for the previous two seasons.

Additionally, distribution payments are made to cover specific racing industry costs, such as Judicial Control Authority, Racing Integrity Unit, Racing Laboratory Services, research, training and education. These industry services are for the benefit of the Racing Codes.

The NZ Racing Board also provides funding for certain other racing industry initiatives which are made at the discretion of the NZ Racing Board.

If the current year's profit is not sufficient to cover total distributions, the general reserve is used.

Distributions of Gaming operating profits are determined separately from distributions from Betting operations profits. Distributions from the Gaming operating profits are made to both external sporting bodies and to the Racing Codes. All distributions from Gaming operating profits are approved by the NZ Racing Board's Net Proceeds Committee under a grants policy that ensures that the authorised purpose is consistent with the purpose specified in the NZ Racing Board's Class 4 Gaming licence. The Racing Code distributions from Gaming operating profits are made up of direct distributions to the Racing Codes and distributions to cover specific industry costs which are considered to be for Racing authorised purposes.

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

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 31 JULY 2013

15. DISTRIBUTIONS (CONT)

	2013 NZ\$000	2012 NZ\$000
NET PROFIT BEFORE DISTRIBUTIONS	144,109	127,259
Distributions and Industry Payments – Racing		
Base code funding	128,829	124,302
Distributions from Gaming	3,261	2,936
Industry initiatives	1,631	1,491
Racing laboratory services	1,110	1,082
Racing Integrity Unit	5,529	4,049
Research, training and education	186	263
Other Racing industry expenses	1,443	1,415
TOTAL DISTRIBUTIONS AND INDUSTRY PAYMENTS – RACING	141,989	135,538
Other Distributions and National Sporting Organisation Grants (paid and payable)		
Distributions from Gaming to Sports Authorised Purposes	401	239
TOTAL DISTRIBUTIONS MADE FROM CURRENT YEAR PROFIT	142,390	135,777
Distributions from Gaming to Sports Authorised Purposes	401	239
Distributions from Gaming not yet made but provided for (note 14)	1,514	3,037
Distributions made to National Sporting Organisations* (note 4)	3,816	3,982
TOTAL OTHER DISTRIBUTIONS AND NATIONAL SPORTING ORGANISATION GRANTS (PAID AND PAYABLE)	5,731	7,258

*Distributions made to National Sporting Organisations are included within turnover related expenses in note 4.

16. FINANCIAL INSTRUMENTS

(a) Capital risk management

The NZ Racing Board manages its capital considering stakeholders' interests, in particular distributions to the Racing Codes, the value of NZ Racing Board assets and funding/retentions required for approved initiatives.

The NZ Racing Board's equity comprises the general reserve, consisting of accumulated balances of prior year's retained surplus net of any losses, plus the current year net profit or loss. The NZ Racing Board's capital management policies are designed to ensure that agreed distributions to the Racing Codes are maintained while also allowing for approved initiatives to be funded from either retained surpluses or debt.

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 31 JULY 2013

16. FINANCIAL INSTRUMENTS (CONT)

(b) Categories of financial instruments

	Held-to-maturity NZ\$000	Loans and receivables NZ\$000	Financial liabilities at amortised cost NZ\$000	Total NZ\$000
2013				
ASSETS				
Cash and cash equivalents	-	26,262	-	26,262
Trade and other receivables	-	11,960	-	11,960
Other financial assets	32,000	2,951	-	34,951
TOTAL FINANCIAL ASSETS	32,000	41,173	-	73,173
Total non-financial assets				48,559
TOTAL ASSETS				121,732
LIABILITIES				
Trade and other payables	-	-	21,817	21,817
Account betting deposits and vouchers	-	-	16,649	16,649
Unpaid dividends	-	-	2,879	2,879
Unresulted turnover	-	-	879	879
Secured bank loan	-	-	1,500	1,500
TOTAL FINANCIAL LIABILITIES	-	-	43,724	43,724
Total non-financial liabilities				8,549
TOTAL LIABILITIES				52,273
2012				
ASSETS				
Cash and cash equivalents	-	11,562	-	11,562
Trade and other receivables	-	8,888	-	8,888
Other financial assets	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	-	-	20,474	20,474
Account betting deposits and vouchers	-	-	16,594	16,594
Unpaid dividends	-	-	2,892	2,892
Unresulted turnover	-	-	1,105	1,105
Secured bank loan	-	-	1,500	1,500
TOTAL FINANCIAL LIABILITIES	-	-	42,565	42,565
Total non-financial liabilities				13,657
TOTAL LIABILITIES				56,222

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 31 JULY 2013

16. FINANCIAL INSTRUMENTS (CONT)

(c) Financial risk management

The Treasury function co-ordinates the investment of cash, surplus to current operational requirements, as well as monitoring and managing all financial risks relating to the operations of the NZ Racing 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 NZ 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 by the internal audit function of the NZ Racing Board. The NZ Racing Board does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The NZ 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.

(d) Liquidity risk management

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

As the NZ 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 NZ Racing 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 NZ Racing Board's remaining contractual maturities for its financial liabilities.

The table comprises the notional undiscounted cash flows for financial liabilities, including both interest and principal, based on the earliest date on which the NZ Racing 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.

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 31 JULY 2013

16. FINANCIAL INSTRUMENTS (CONT)

	Carrying amount NZ\$000	On demand NZ\$000	Less than 3 months NZ\$000	3 months to 1 year NZ\$000	1-5 years NZ\$000	Total contractual cash flows NZ\$000
FINANCIAL LIABILITIES						
2013						
Trade and other payables	21,817	-	21,904	-	-	21,904
Account betting deposits and vouchers	16,649	16,649	-	-	-	16,649
Unpaid dividends	2,879	2,879	-	-	-	2,879
Unresulted turnover	879	-	879	-	-	879
Secured bank loan	1,500	-	13	37	1,518	1,568
Total notional cash outflows for recognised liabilities	43,724	19,528	22,796	37	1,518	43,879
Financial guarantees (maximum amount payable)						
Club loan guarantees	-	8,820	-	-	-	8,820
TOTAL NOTIONAL CASH OUTFLOWS	43,724	28,348	22,796	37	1,518	52,699
	Carrying amount NZ\$000	On demand NZ\$000	Less than 3 months NZ\$000	3 months to 1 year NZ\$000	1-5 years NZ\$000	Total contractual cash flows NZ\$000
FINANCIAL LIABILITIES						
2012						
Trade and other payables	20,474	-	20,591	-	-	20,591
Account betting deposits and vouchers	16,594	16,594	-	-	-	16,594
Unpaid dividends	2,892	2,892	-	-	-	2,892
Unresulted turnover	1,105	-	1,105	-	-	1,105
Secured bank loan	1,500	-	-	-	1,500	1,500
Total notional cash outflows for recognised liabilities	42,565	19,486	21,696	-	1,500	42,682
Financial guarantees (maximum amount payable)						
Club loan guarantees	-	8,820	-	-	-	8,820
TOTAL NOTIONAL CASH OUTFLOWS	42,565	28,306	21,696	-	1,500	51,502

It is not expected that the Club loan guarantees will be called.

NOTES TO THE FINANCIAL STATEMENTS (CONT)

16. FINANCIAL INSTRUMENTS (CONT)

(e) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the NZ Racing Board. The maximum exposure is equal to the carrying amount of the financial assets, as follows:

	2013 NZ\$000	2012 NZ\$000
MAXIMUM EXPOSURE TO CREDIT RISK		
Cash and cash equivalents	26,262	11,562
Short-term deposits	30,000	38,004
TOTAL LIQUID INVESTMENTS	56,262	49,566
Corporate bonds	2,000	2,000
Loans to Racing Clubs	2,951	8,857
Trade and other receivables (net of doubtful debt provision)	11,960	8,888
TOTAL FINANCIAL ASSETS	73,173	69,311
TOTAL UNRECOGNISED CREDIT EXPOSURES		
Guarantee issued	8,820	8,820
TOTAL CREDIT EXPOSURES	81,993	78,131

All loans to Racing Clubs are fully secured. The NZ Racing Board has issued a guarantee to the BNZ relating to the RACE Inc loan. Refer to note 8 for further disclosure on the security and guarantee.

Concentrations of credit risk

The NZ Racing Board is exposed to the following industry and geographical concentrations of credit risk for trade and other receivables:

	2013 %	2013 NZ\$000	2012 %	2012 NZ\$000
Trade and other receivables (Industry & geographical concentrations)				
Australian betting agencies	20.8%	2,486	36.7%	3,261
New Zealand retail TAB outlets	6.8%	814	14.3%	1,272
Other New Zealand trade and other receivables	72.4%	8,660	49.0%	4,355
TOTAL TRADE AND OTHER RECEIVABLES	100.0%	11,960	100.0%	8,888

The NZ Racing Board has a concentration of credit risk with its liquid investments, which are held with three New Zealand registered banks. All the New Zealand registered banks with which the liquid investments are held have a credit rating of AA-. The corporate bonds are held with a New Zealand registered bank with a credit rating of A+.

To mitigate the credit risk of certain receivables, the NZ 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.

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 31 JULY 2013

16. FINANCIAL INSTRUMENTS (CONT)

(f) Foreign currency exchange rate risk

The NZ Racing Board is exposed to exchange rate fluctuations from certain foreign currency denominated transactions it undertakes. Exchange rate exposures may be managed within approved policy parameters which may include the use of forward foreign exchange contracts.

The NZ Racing Board's significant 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
2013					
Australian dollars	AUD	2,909	3,352	915	1,055
2012					
Australian dollars	AUD	4,487	5,789	2,566	3,303

Foreign currency sensitivity analysis

As at 31 July 2013, if the New Zealand dollar had strengthened / weakened against the Australian dollar by 10% (2012: 10%), with all other variables held constant, the net profit before distributions would have been \$232,003 (2012: \$251,000) 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 NZ 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.

There are no forward foreign exchange contracts outstanding as at 31 July 2013 (2012: nil).

(g) Interest rate risk

The NZ 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 16(e) above.

As at 31 July 2013, if the interest rates had increased / decreased by 0.5%, with all other variables held constant, the net profit before distributions would have been \$302,627 (2012: \$296,813) 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 (CONT)

FOR THE YEAR ENDED 31 JULY 2013

17. RELATED PARTIES

Transactions with Racing Codes, Clubs and other related parties

In addition to distributions, the NZ Racing Board has numerous transactions with the Racing Codes, Clubs and other related parties which are outlined below:

ENTITY	TRANSACTION	Transaction value		Balance outstanding	
		2013 NZ\$000	2012 NZ\$000	2013 NZ\$000	2012 NZ\$000
New Zealand Greyhound Racing Association	Distributions paid and payable (incl interest)	(20,674)	(19,917)	(1,552)	(1,517)
	On-course venue services, trackside operations and radio services	2,739	2,807	-	-
	Other services provided by the NZ Racing Board	635	638	48	50
Harness Racing New Zealand	Distributions paid and payable (incl interest)	(39,477)	(37,548)	(2,626)	(1,462)
	On-course venue services, trackside operations and radio services	4,716	4,513	-	-
	Other services provided by the NZ Racing Board	718	742	34	164
New Zealand Thoroughbred Racing	Distributions paid and payable (incl interest)	(71,939)	(69,773)	(2,028)	(1,424)
	On-course venue services, trackside operations and radio services	7,713	7,199	-	-
	Other services provided by the NZ Racing Board	197	191	14	11
Racing Integrity Unit	Funding	(5,529)	(4,049)	(260)	(170)
	Other services provided by the NZ Racing Board	72	96	252	372

Refer to note 21 for further information regarding Racing Integrity Unit ("RIU"). The balance outstanding with RIU relates to certain payments made to RIU employees, for which RIU will reimburse to NZ Racing Board.

Additionally, NZ Racing Board has provided loans to certain Racing Clubs. Details relating to the outstanding Racing Club loans are disclosed in note 8.

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 NZ Racing Board has transactions in the normal course of business. Additionally certain key management personnel of the NZ Racing Board are directors of other organisations with which the NZ Racing Board transacts.

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 31 JULY 2013

17. RELATED PARTIES (CONT)

Outlined below are the significant transactions with entities in which key management personnel have an interest:

Entity	Transaction	Transaction value		Balance outstanding		Relationship
		2013 NZ\$000	2012 NZ\$000	2013 NZ\$000	2012 NZ\$000	
New Zealand Rugby Union	National sports organisations grants	(957)	(1,311)	-	-	Graham Cooney, a Board member of the NZ Racing Board is also a Board member of the New Zealand Rugby Union.
New Zealand Equine Research Foundation	Funding	(10)	-	(5)	-	Martin Saunders, a member of the NZ Racing Board Leadership Team is a Board member of the New Zealand Equine Research Foundation.

Compensation of key management personnel

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

	2013 NZ\$000	2012 NZ\$000
Directors' fees	307	329
Chief Executive and Leadership team		
Salaries and other short-term employee benefits	4,301	3,066
Termination payments	613	-
TOTAL KEY MANAGEMENT PERSONNEL	5,221	3,395

The NZ Racing Board considers key management personnel as the Board members, the Chief Executive and the Leadership team. There has been a number of changes in the Leadership team during the year. As at 31 July 2013, the Leadership team included 10 members (2012: 8 members). The salaries and other short-term employee benefits include the salaries received and accrued bonuses for the 10 members of the Leadership team. It also includes six employees that were either terminated, resigned or held 'acting' positions.

18. COMMITMENTS

(a) Operating lease commitments

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

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

	2013 NZ\$000	2012 NZ\$000
Within one year	5,767	6,089
Later than one year but no later than five years	6,468	10,023
Later than five years	83	464
TOTAL OPERATING LEASE COMMITMENTS	12,318	16,576

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 31 JULY 2013

18. COMMITMENTS (CONT)

The 2012 operating lease commitments comparatives have been increased by a total of \$2.6 million due to some leases being excluded from the number disclosed in prior year financial statements. In 2012, these leases were included in the other non-cancellable operating commitments below.

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

Two of the leased properties have been sublet by the NZ Racing Board. The leases and subleases expire in 2016. Total future minimum sublease payments of \$0.4 million (2012: \$0.5 million) are expected to be received.

For the year ended 31 July 2013, \$6.3 million was recognised as an expense within premises and equipment expenses in the profit or loss in respect of operating leases (2012: \$5.0 million). Rent received on properties owned by the NZ Racing Board was recognised as rent income during the year was \$0.2 million (2012: \$0.2 million).

(b) Other non-cancellable operating commitments

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

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

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

Non-cancellable operating commitments are payable as follows:

	2013 NZ\$000	2012 NZ\$000
Within one year	12,698	10,866
Later than one year but no later than five years	20,157	33,721
TOTAL OTHER NON-CANCELLABLE OPERATING COMMITMENTS	32,855	44,587

19. CONTINGENT LIABILITIES

Guarantee

On 5 February 2009, the NZ Racing Board provided a guarantee to the BNZ 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 NZ Racing Board covering the amounts guaranteed to BNZ.

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 31 JULY 2013

20. RECONCILIATION OF NET PROFIT TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	2013 NZ\$000	2012 NZ\$000
SURPLUS / (DEFICIT) ATTRIBUTABLE TO NZ RACING BOARD RESERVES	205	(11,555)
NON-CASH ITEMS		
Depreciation expense	10,832	11,019
Amortisation expense	2,024	2,375
Unrealised foreign exchange loss / (gain)	103	(102)
Increase in provision for doubtful debts	55	30
Impairment	928	11,054
Other non-cash items	(156)	108
TOTAL NON-CASH ITEMS	13,786	24,484
ITEMS CLASSIFIED AS INVESTING / FINANCING ACTIVITIES		
Net gain on sale of property, plant and equipment	(787)	(281)
Net finance income	(1,998)	(1,906)
TOTAL ITEMS CLASSIFIED AS INVESTING / FINANCING ACTIVITIES	(2,785)	(2,187)
MOVEMENT IN CURRENT ASSETS		
(Increase) / decrease in trade and other receivables	(297)	144
Decrease / (increase) in other assets	1,346	(220)
TOTAL MOVEMENT IN CURRENT ASSETS	1,049	(76)
MOVEMENT IN LIABILITIES		
Increase in trade and other payables	1,020	2,930
Increase in customer betting account deposits	55	1,513
Decrease in other financial liabilities	(808)	(465)
(Decrease) / increase in taxes payable	(4,228)	1,382
(Decrease) / increase in provisions	(279)	3,083
TOTAL MOVEMENT IN LIABILITIES	(4,240)	8,443
NET CASH PROVIDED BY OPERATING ACTIVITIES	8,015	19,109

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 31 JULY 2013

21. GROUP ENTITIES

(a) Betting Accounts and Vouchers Trust

The Betting Accounts and Vouchers Trust (the 'Trust') was established by the NZ Racing Board in 2004 to set aside funds for the purpose to cover amounts owed to customers on TAB betting accounts and unrepresented vouchers. The NZ Racing Board are the Trustees of the Trust. The NZ Racing Board controls the Trust which is therefore consolidated with these financial statements. 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 the NZ Racing Board as Trustee.

(b) Racing Integrity Unit

The NZ Racing Board holds a 25% interest in the RIU. The three Racing Codes each hold 25%. RIU is charged with managing the integrity issues that specifically arise from races occurring within the three Racing Codes.

The 25% ownership interest in RIU and the fact that the NZ Racing Board provides all of the funding to RIU means that for financial reporting purposes the NZ Racing Board controls RIU. The NZ Racing Board does not consolidate RIU as the impact on the NZ Racing Board financial statements is not material. The total funding to RIU was \$5.5 million (2012: \$4.0 million) is included within distributions in the profit or loss. Refer to note 15.

If the NZ Racing Board had consolidated RIU, the impact on total assets would be an increase of \$1.3 million (2012: \$1.0 million), \$1.4 million (2012: \$0.1 million) on turnover related expenses, \$2.9 million (2012: \$2.9 million) on staff expenses, \$0.2 million (2012: \$0.1 million) on premises and equipment expenses and \$1.0 million (2012: \$1.0 million) on other expenses. Total distributions would decrease by \$5.5 million (2012: \$4.0 million).

22. BUDGET INFORMATION

	2013 NZ\$000	Unaudited Budget 2013 NZ\$000	Unaudited Variance 2013 NZ\$000
INCOME			
Net betting revenue	243,515	245,119	(1,604)
Net gaming revenue	14,169	14,003	166
Other income	46,829	46,617	212
TOTAL INCOME	304,513	305,739	(1,226)
TURNOVER RELATED EXPENSES	44,736	46,308	1,572
OPERATING EXPENSES			
Staff expenses	54,979	51,358	(3,621)
Premises and equipment expenses	27,515	26,135	(1,380)
Other expenses	33,174	39,442	6,268
TOTAL OPERATING EXPENSES	115,668	116,935	1,267
TOTAL EXPENSES	160,404	163,243	2,839
NET PROFIT BEFORE DISTRIBUTIONS	144,109	142,496	1,613

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 31 JULY 2013

22. BUDGET INFORMATION (CONT)

Budget comparative information (unaudited)

Net Betting revenue was below budget by \$1.6 million. The number of licensed gaming machines held by the NZ Racing Board was higher than expected, resulting in net Gaming revenue being ahead of budget by \$0.2 million.

Staff expenses were higher than budget by \$3.6 million. Costs relating to restructuring the business totalled \$3.4 million with the remainder of the variance due to new hires and replacements to build capability in the organisation.

Premises and equipment expenses were above budget by \$1.4 million. This was due to the transfer of certain costs (\$1.4 million) from broadcasting expenses (included within other expenses below) to rent expenses.

Other expenses were below budget by \$6.3 million. Other expenses were impacted by the reclassification of broadcasting costs of \$1.4 million (see above). Advertising was below forecast by \$1.7 million and other costs were also below budget across a number of expense lines due to budgeted initiatives being delayed or not occurring.

23. SUBSEQUENT EVENTS

There were no subsequent events.

AUDITORS' REPORT



Independent Auditors' Report

to the Board 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 60 to 92, which comprise the statement of financial position as at 31 July 2013, the statement of profit or loss and comprehensive income, 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 for the New Zealand Racing Board.

Board Members' Responsibility for the Financial Statements

The Board Members are responsible for the preparation of these financial statements in accordance with generally accepted accounting practice in New Zealand and that present fairly the matters to which they relate and for such internal controls as the 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.

Other than in our capacity as auditors and providers of other assurance services we have no relationship with, or interests in, the New Zealand Racing Board. These services have not impaired our independence as auditors of the New Zealand Racing Board.

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AUDITORS' REPORT



Independent Auditors' Report

New Zealand Racing Board

Opinion

In our opinion, the financial statements on pages 60 to 92:

- (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 2013, and its financial performance and cash flows for the year then ended.

Restriction on Distribution or Use

This report is made solely to the Board Members of the New Zealand Racing Board, as a body, in accordance with the Racing Act 2003. Our audit work has been undertaken so that we might state to the Board 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 Board Members of the New Zealand Racing Board, as a body, for our audit work, for this report or for the opinions we have formed.

A stylized, handwritten-style signature of 'PricewaterhouseCoopers' in black ink.

Chartered Accountants
27 September 2013

Wellington

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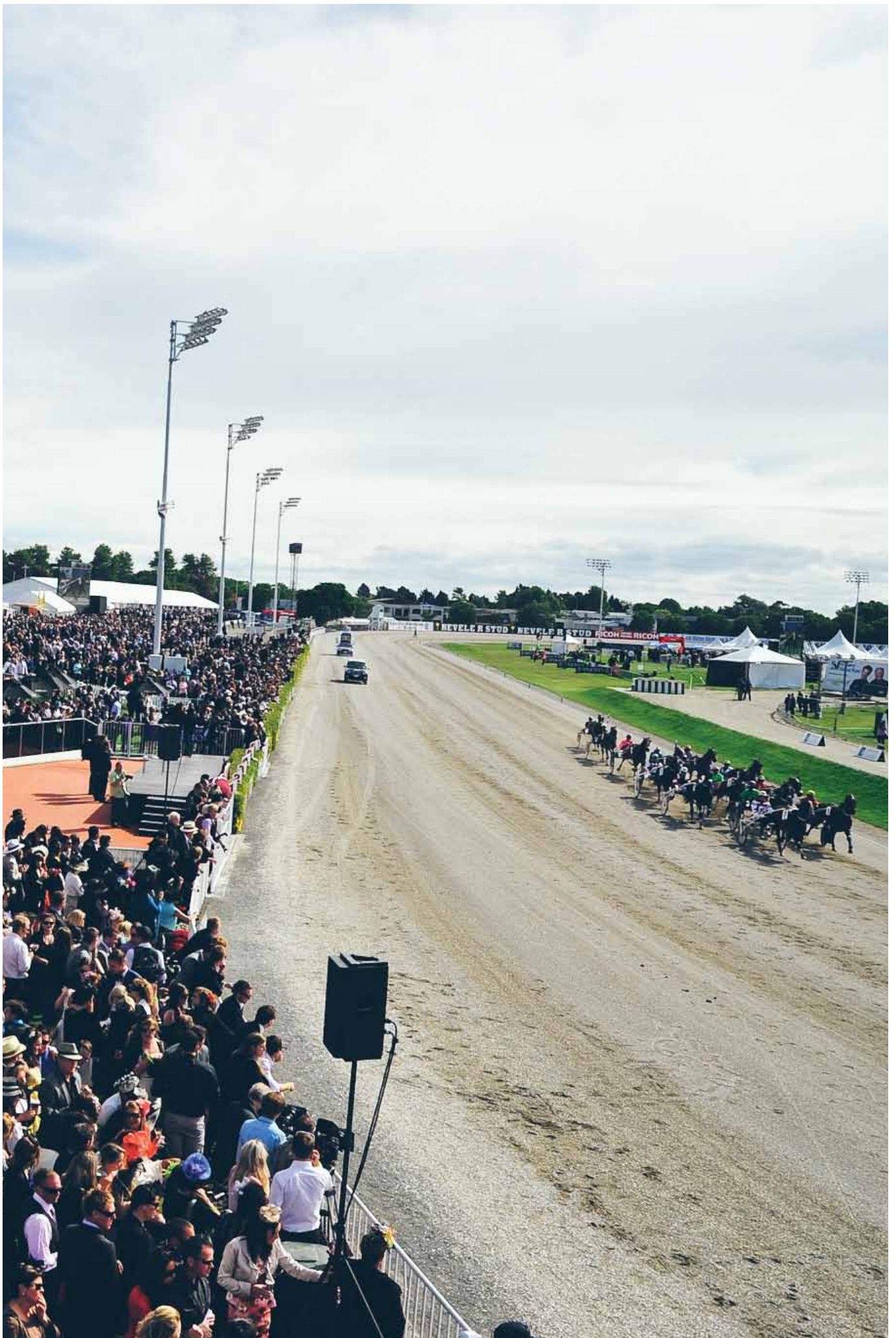
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