

NEW ZEALAND  
RACING BOARD



INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 JANUARY 2017



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# NZRB INTERIM FINANCIAL STATEMENTS 2017

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## UPDATE FROM THE CHIEF EXECUTIVE

**It's been another positive six months for the New Zealand Racing Board (NZRB) as we address the fundamental changes needed in the racing industry over the long term, while supporting significant funding demands in our current operating environment. After exceeding Net Profit in the 2015/16 year, distributable profit for the first half of 2016/17 is up again, 6.9% year on year. This strong financial result is largely driven by improved margins and good cost management.**

NZRB is doing more to control costs, more to distribute additional funding to industry, and more to invest for the future. We are actively confronting and dealing with issues that have been challenging for our industry over the last twenty years. We are making progress and \$80.1 million Net Profit for the first half of the year demonstrates our ability to deliver and succeed. We have a clear focus on the projects we are implementing (Racefields, FOB automation, growing our customer base and optimising the racing calendar) and expect them to deliver both a better customer experience and significantly higher profits over the next three years.

In the half year, we increased our distributions to the racing industry by 1.6% or \$1.3 million on last year to \$79.1 million. This is in addition to the extra \$1.1 million of funding available in the 2016/17 year from the \$4.7 million Industry Enhancement initiatives announced in January. While we accept these increases are not huge, they are a start and additional code funding specifically targeted at lifting stakes is currently under consideration. Our distribution to national sporting organisations was also up to \$4.5 million, an increase of \$0.6 million or 16.8% and we distributed \$1.2 million to amateur sport from our gaming activities.

We are on track to deliver our challenging profit target of \$148.0 million in the 2016/17 year. Strong betting margins across all product categories, combined with an improvement in product mix has resulted in Gross Betting Margin of 15.3%, an increase of one percentage point on last year. NZRB is also continuing to tightly manage costs and we are proactively managing areas of any future increase. In the first half of the year, operating expenses were \$68.1 million, up just 0.8% on last year - and this small increase was driven by Health and Safety initiatives required under new legislation and budgeted Optimus programme costs. We've reduced staff and broadcasting costs and held premises and equipment costs flat - putting us on track to hold full year operating costs in line with last year.

Total revenue has also grown to \$182.3 million, up 3.3% on last year, despite betting turnover being down 2.6% due largely to the loss of a small number of high staking Elite customers who are no longer punting with us because our product offering and our channel offerings are simply not competitive. Our Fixed Odds Betting platform, Customer and Channels project, and Racefields legislation will address these challenges.

The trends we have identified in previous periods continue:

- The move from Tote to Fixed Odds continues (Racing tote -7.8%, FOB +4.8%).
- Digital is still the fastest growing channel - making up 57% of Betting Turnover - an increase of 1.5 percentage points on last year with telephony down 33%, impacted by the closure of Phonebet.
- The Mobile App remains the fastest growing customer touch point, up 79.7% or \$29.7 million on 2015/16.
- Our Retail network has grown turnover by 0.8%, led by TAB Branch venues up 12.8%. New TAB concept venues opened in Mt Maunganui and Auckland are delivering promising results.

# NZRB INTERIM FINANCIAL STATEMENTS 2017

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## UPDATE FROM THE CHIEF EXECUTIVE (CONTINUED)

### STRATEGIC INITIATIVES

Good progress has been made against our key strategic initiatives in the first half of the financial year which once implemented will deliver a significant lift in annualised net profit each year:

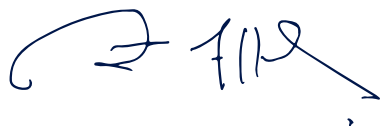
- The new Racefields legislation reached an important milestone in March with the Minister for Racing announcing proposed amendments to the Racing Act 2003, and we are continuing to work on having it passed before this year's election.
- Fixed Odds Betting platform development - Openbet/PaddyPower Betfair, international leaders in betting technology and wagering, were selected as our partner for the detailed planning and design phase undertaken during the first half of the 2017 calendar year, following which a full business case will go to the Board for decision.
- Customer and channels - customer insights were used to establish two new retail TAB concept venues and development of targeted customer on-boarding programmes. The first phase of digital identity verification is underway, an Elite customer portal has been introduced, and a digital programme has commenced to further enhance this channel.
- Optimise the Calendar - initial calendar changes have been worked into the calendar for the 2017/18 season currently being finalised, and we will look to build further intensification in the 2018/19 calendar in collaboration with the codes and clubs.
- The Optimus programme is nearly completely delivered and shortly before Christmas we underwent one of the biggest technology changes NZRB has seen in 30 years, with the successful migration of NZRB's IT infrastructure and Jetbet operating systems to the cloud.

Expect to see the pace of implementation across these initiatives increase over the next six months and subsequent two years.

NZRB knows the industry is tired of hearing about plans, many are struggling and we need to significantly lift funding levels to support them. The position we find ourselves in demands action. There will always be those with alternative views but we have to make decisions and press on. It is critical that our industry is aligned and focussed on delivering the significant changes required.

We will continue to work on addressing perceptions surrounding NZRB costs and deliver strong financial results to improve industry confidence.

NZRB has a clearly defined roadmap and a passionate leadership team in place with the right skills to achieve our goals and deliver a long-term sustainable future for New Zealand racing.



**John Allen**

Chief Executive Officer

New Zealand Racing Board

18 April 2017

# NZRB INTERIM FINANCIAL STATEMENTS 2017

## FINANCIAL COMMENTARY FOR THE SIX MONTHS ENDED 31 JANUARY 2017

The New Zealand Racing Board (NZRB) achieved a net profit of \$80.1 million for the first half of the 2017 year, \$5.1 million (6.9%) ahead of last year and \$1.3 million (1.7%) ahead of Budget.

### CURRENT PERIOD FINANCIAL PERFORMANCE AGAINST PRIOR PERIOD

#### BETTING AND GAMING TURNOVER

Overall turnover was \$6.0 million (0.4%) down on last year, driven by a decrease in Betting turnover of \$31.3 million (2.6%) at \$1,156.0 million. Racing tote continues to decline, driven by the shift in customer preference towards fixed odds betting, and is \$46.2 million (7.8%) down on last year. This was partly offset by racing fixed odds betting continuing to perform better than last year due to the shift in customer preference and an increase in the number of betting options offered. In-play sports and racing fixed odds turnover has been negatively impacted by the loss of a small number of high staking customers due to the competitiveness of our product offerings. Despite this, Retail turnover is up \$3.3 million (0.8%) on last year, led by TAB venues, up 12.8%.

Gaming turnover increased by \$25.4 million or 13.0%, impacted by refurbishments of existing venues and new TAB venues opened over the previous 12 months.

#### REVENUE

Total revenue was strong for the first half of 2017 financial year, \$5.8 million (3.3%) ahead of last year.

Despite betting turnover being down on last year, net betting revenue increased by \$4.2 million (3.0%) to \$145.5 million. This was driven by improved betting margins that increased from 11.8% to 12.6% combined with favourable product mix resulting from lower in-play sports betting.

Net gaming revenue was \$1.3 million or 11.8% above last year as a result of the increase in turnover.

Overseas revenue decreased by \$0.3 million (2.2%) resulting from a higher than expected number of NZ abandonments across the equine codes.

#### EXPENSES

Turnover related expenses were \$0.2 million or 0.5% higher than the same period last year. National Sporting Organisation commissions increased by \$0.6 million (16.8%), despite a decrease in sports turnover, impacted by a new strategic fund developed with Sports New Zealand. This increase was partly offset by lower advertising and promotional costs of \$0.5 million (13.4%), as NZRB moves away from more traditional advertising in favour of lower cost digital advertising mediums.

Cost management continues to be a priority, despite activity increasing on the strategic projects. Overall operating expenses have been held relatively flat, increasing by only 0.8% (\$0.5 million). Costs relating to the strategic initiatives were \$0.6 million, \$0.1 million below the prior year, and mainly related to consultants (\$0.4 million) and staff expenses (\$0.2 million).

Cost savings have been driven in staff expenses (\$0.3 million) despite the impact of the strategic initiatives, broadcasting costs (\$0.1 million) and depreciation expenses (\$0.2 million) linked to lower capex spend. The decrease in staff expenses has been driven by a number of initiatives, including a freeze of salaries above \$75,000, the closure of Phonebet at the end of FY16 and careful management of vacant positions. These savings were offset by an increase in Health & Safety costs in line with new legislation, higher rental costs relating to property disposals, increased merchant fees combined with higher technology expenses relating to the successful implementation of the Optimus project.

#### NET PROFIT

Net profit increased by \$5.1 million or 6.9% year on year

Total distributions to both the racing industry and amateur sporting organisations increased by \$1.0 million or 1.4% compared to last year.

	UNAUDITED		% CHANGE
	31 JANUARY 2017 CONSOLIDATED \$000	31 JANUARY 2016 CONSOLIDATED \$000	
Betting and gaming turnover	1,376,015	1,381,980	-0.4%
Net profit before distributions	80,055	74,919	6.9%
Code distributions	73,225	72,063	1.6%
Total distributions	76,505	75,476	1.4%

# NZRB INTERIM FINANCIAL STATEMENTS 2017

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## FINANCIAL COMMENTARY FOR THE SIX MONTHS ENDED 31 JANUARY 2017

### FINANCIAL POSITION

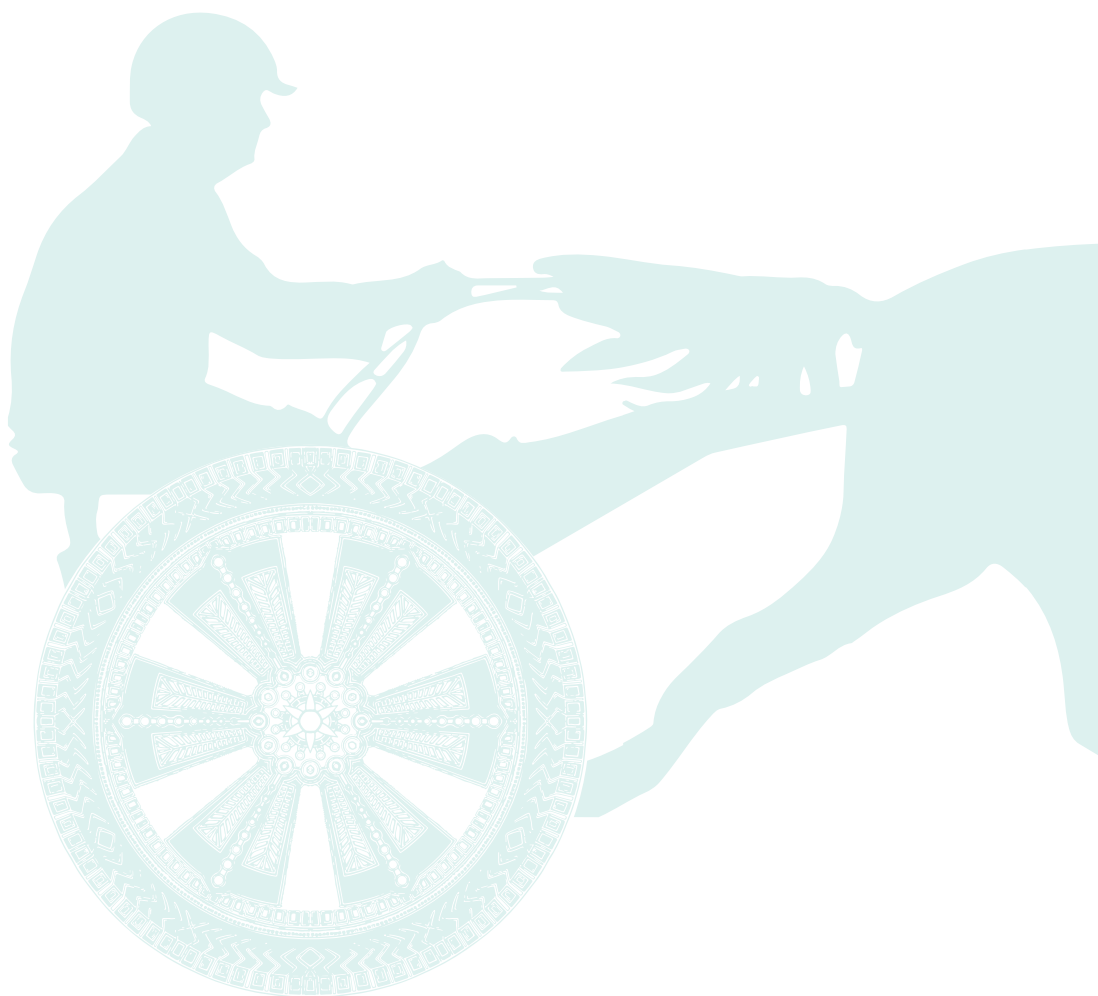
Cash and term deposit balances, after excluding those relating to Betting Accounts and Vouchers Trust, have increased by \$3.3 million or 9.0% to \$39.8 million since July 2016. This increase is driven by a strong profit result combined with disciplined capital management as NZRB focusses on delivery of its key strategic initiatives.

Trade and other receivables have increased by \$1.7 million (14.9%) compared to July 2016 that is primarily seasonal related due to the increased operating activity compared to July.

Overall, total equity was \$75.5 million as at 31 January 2017, increasing by \$1.7 million (2.3%) since July 2016.

Total assets have increased by \$0.8 million (0.6%) from July 2016, to \$140.8 million. The decrease in fixed assets reflects the lower level of capex spend in conjunction with ongoing depreciation.

Total liabilities have decreased by \$0.9 million (1.3%) since July 2016 driven by a decrease in the Customer Betting Account Deposits of \$1.7 million resulting from lower betting turnover. This decrease in liability was partly offset by an increase in Code distributions payable of \$1.0 million as well as an increase in taxes payable of \$0.3 million.





# NZRB INTERIM FINANCIAL STATEMENTS 2017

## FINANCIAL COMMENTARY FOR THE SIX MONTHS ENDED 31 JANUARY 2017 (CONTINUED)

### CURRENT PERIOD FINANCIAL PERFORMANCE AGAINST BUDGET

#### BETTING AND GAMING TURNOVER

Total betting turnover was below Budget by \$78.3 million (6.4%). Betting turnover has been significantly impacted by a small number of high staking customers shifting some of their betting to overseas competitors due to the poor competitiveness of our product offerings. Overall turnover was \$71.0 million (4.9%) below Budget.

Gaming turnover was \$7.3 million (3.4%) ahead of Budget. This was driven by higher than anticipated performance from both refurbished and new TAB venues.

#### REVENUE

Net betting revenue was in line with Budget at \$145.5 million despite betting turnover being down on Budget. This was driven by stronger betting margins achieved across all product categories and an improvement in product mix. Although the shift in customer preference from tote to fixed odds betting continues to dilute margins, the reinstatement of Australian commingling on exotic products combined with enhanced margins on multis and other high margin betting options has lifted the overall betting margin.

Net gaming revenue was in line with Budget at \$12.6 million, with gaming machine margins impacted by frequency of jackpots.

Overseas revenue was below Budget by \$0.7 million (6.2%) resulting from a higher than expected number of NZ abandonments across the equine codes.

#### EXPENSES

Turnover related expenses were below Budget by \$0.3 million (0.8%) due to lower than budgeted advertising and promotional costs and National Sporting Organisations commission on the back of lower sports turnover.

Operating expenses were below Budget by \$1.7 million (2.4%), excluding project costs associated with the strategic initiatives. As outlined in the 2017-2019 Statement of Intent, the 2016/17 Budget excluded the cost and benefits in relation to the broader strategic initiatives. For the first half year of 2017, a total of \$0.6 million of costs were incurred on the strategic initiatives. These costs have been excluded from the analysis below.

Staff expenses were below Budget by \$0.5 million (1.4%). Savings realised across legal, consultancy fees, travel and accommodation have resulted in other expenses being below Budget by \$1.3 million.

Other savings against Budget have also been realised across broadcasting (\$0.1 million) and depreciation (\$0.1 million) expenses that were partly offset by higher technology expenses related to the successful implementation of the Optimus project (\$0.1 million).

#### NET PROFIT

Reported net profit before distributions was ahead of Budget by \$1.3 million or 1.7%. Net profit excluding the unbudgeted project costs of \$0.6 million, was \$2.0 million ahead of Budget driven by strong betting margins and tight cost management.

	ACTUALS	BUDGET	
	31 JANUARY 2017 CONSOLIDATED \$000	31 JANUARY 2017 CONSOLIDATED \$000	VARIANCE \$000
<b>BETTING AND GAMING TURNOVER</b>	1,376,015	1,447,018	(71,003)
<b>REVENUE</b>			
Net betting revenue	145,485	145,507	(22)
Net gaming revenue	12,590	12,569	21
NZ racing shown overseas revenue	10,950	11,678	(728)
Other revenue	13,255	13,136	119
<b>TOTAL REVENUE</b>	<b>182,280</b>	<b>182,890</b>	<b>(610)</b>
<b>TURNOVER RELATED EXPENSES</b>	34,166	34,440	(274)
<b>OPERATING EXPENSES</b>	68,059	69,717	(1,658)
<b>NET PROFIT BEFORE DISTRIBUTIONS</b>	<b>80,055</b>	<b>78,733</b>	<b>1,322</b>
Unbudgeted strategic projects spend	632	-	632
<b>NET PROFIT EXCLUDING STRATEGIC PROJECTS</b>	<b>80,687</b>	<b>78,733</b>	<b>1,954</b>

# NZRB INTERIM FINANCIAL STATEMENTS 2017

## CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 31 JULY 2017

	NOTE	UNAUDITED	
		31 JANUARY 2017 CONSOLIDATED \$000	31 JANUARY 2016 CONSOLIDATED \$000
Betting and gaming turnover	4a	1,376,015	1,381,980
<b>REVENUE</b>			
Net betting revenue	4b	145,485	141,238
Net gaming revenue	4c	12,590	11,266
NZ racing shown overseas revenue		10,950	11,201
Other revenue	5	13,255	12,774
<b>TOTAL REVENUE</b>		<b>182,280</b>	<b>176,479</b>
<b>TURNOVER RELATED EXPENSES</b>	6	34,166	34,007
<b>PROFIT CONTRIBUTION</b>		<b>148,114</b>	<b>142,472</b>
<b>OPERATING EXPENSES</b>			
Broadcasting expenses		4,882	5,019
Communication and technology expenses		8,579	7,569
Premises and equipment expenses	7	7,513	7,488
Staff expenses	8	32,069	32,408
Depreciation and amortisation		7,885	8,097
Foreign exchange gain		61	120
Other operating expenses	9	7,070	6,852
<b>TOTAL OPERATING EXPENSES</b>		<b>68,059</b>	<b>67,553</b>
<b>NET PROFIT BEFORE DISTRIBUTIONS</b>		<b>80,055</b>	<b>74,919</b>
Distributions	3	76,505	75,476
Provisions for undistributed gaming surplus		1,701	1,168
<b>NET PROFIT/(LOSS) AFTER DISTRIBUTIONS</b>		<b>1,849</b>	<b>(1,725)</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
Movement in fair value of cash flow hedges *		(138)	404
<b>TOTAL OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR</b>		<b>1,711</b>	<b>(1,321)</b>
<b>TOTAL OTHER COMPREHENSIVE INCOME/(LOSS) ATTRIBUTABLE TO:</b>			
Non-controlling interests in Racing Integrity Unit Limited		126	236
NZRB reserves		1,585	(1,557)
		<b>1,711</b>	<b>(1,321)</b>

\* Items of other comprehensive income may be reclassified to profit or loss.



# NZRB INTERIM FINANCIAL STATEMENTS 2017

## CONDENSED STATEMENT OF CHANGES IN EQUITY *FOR THE SIX MONTHS ENDED 31 JANUARY 2017*

	UNAUDITED ATTRIBUTABLE TO NZRB			UNAUDITED GROUP	
	General reserve	Hedging reserve	TOTAL	Non-controlling interest	TOTAL GROUP EQUITY
	\$000	\$000	\$000	\$000	\$000
<b>Balance as at 1 August 2015</b>	<b>71,005</b>	<b>(336)</b>	<b>70,669</b>	<b>166</b>	<b>70,835</b>
Net profit after distributions	(1,961)	-	(1,961)	236	(1,725)
Other comprehensive income	-	404	404	-	404
<b>Balance as at 31 January 2016</b>	<b>69,044</b>	<b>68</b>	<b>69,112</b>	<b>402</b>	<b>69,514</b>
<b>Balance as at 1 August 2016</b>	<b>73,047</b>	<b>489</b>	<b>73,536</b>	<b>233</b>	<b>73,769</b>
Net profit after distributions	1,723	-	1,723	126	1,849
Other comprehensive loss	-	(138)	(138)	-	(138)
<b>Balance as at 31 January 2017</b>	<b>74,770</b>	<b>351</b>	<b>75,121</b>	<b>359</b>	<b>75,480</b>



# NZRB INTERIM FINANCIAL STATEMENTS 2017

## CONDENSED STATEMENT OF FINANCIAL POSITION AS AT 31 JANUARY 2017

		UNAUDITED 31 JANUARY 2017 CONSOLIDATED \$000	AUDITED 31 JULY 2016 CONSOLIDATED \$000
	NOTE		
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		26,346	30,807
Derivative assets		430	525
Trade and other receivables		12,772	11,115
Non-current assets held for sale		516	-
Other financial assets	11	38,500	31,000
Other current assets		2,320	1,499
<b>TOTAL CURRENT ASSETS</b>		<b>80,884</b>	<b>74,946</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		39,637	44,858
Intangible assets (including software assets)		14,551	14,731
Other financial assets	11	2,717	2,692
Other non-current assets		2,964	2,690
<b>TOTAL NON-CURRENT ASSETS</b>		<b>59,869</b>	<b>64,971</b>
<b>TOTAL ASSETS</b>		<b>140,753</b>	<b>139,917</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables		25,489	24,848
Customer betting account deposits and vouchers		22,867	24,521
Other financial liabilities		5,387	5,111
Taxation payable		4,953	4,617
Provisions		2,637	2,984
<b>TOTAL CURRENT LIABILITIES</b>		<b>61,333</b>	<b>62,081</b>
<b>NON-CURRENT LIABILITIES</b>			
Other financial liabilities		2,873	3,028
Provisions		1,067	1,039
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>3,940</b>	<b>4,067</b>
<b>TOTAL LIABILITIES</b>		<b>65,273</b>	<b>66,148</b>
<b>TOTAL EQUITY</b>		<b>75,480</b>	<b>73,769</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>140,753</b>	<b>139,917</b>

The Board members of the New Zealand Racing Board authorised these financial statements for issue on 18 April 2017.



**Glenda Hughes**  
Chair of the New Zealand Racing Board



**Alistair Ryan**  
Chair of the Audit and Risk Committee  
of the New Zealand Racing Board

# NZRB INTERIM FINANCIAL STATEMENTS 2017

## CONDENSED STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 31 JANUARY 2017

	UNAUDITED	
	31 JANUARY 2017 CONSOLIDATED \$000	31 JANUARY 2016 CONSOLIDATED \$000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>INFLOWS</b>		
Betting and gaming turnover	1,375,216	1,381,632
Jackpot retentions and account deposits (net)	-	1,521
NZ racing shown overseas and other revenue	13,151	13,021
Racing services	7,092	7,240
<b>TOTAL INFLOWS FROM OPERATING ACTIVITIES</b>	<b>1,395,459</b>	<b>1,403,414</b>
<b>OUTFLOWS</b>		
Betting and gaming dividends paid	(1,178,891)	(1,193,399)
Betting and gaming duty paid	(11,999)	(11,142)
Goods and services tax (net)	(26,085)	(23,914)
Jackpot retentions and account deposits (net)	(1,284)	-
National sporting organisations	(4,855)	(4,403)
Payments for employee benefits including termination payments	(33,083)	(32,646)
Payments to suppliers	(58,029)	(61,132)
<b>TOTAL OUTFLOWS FROM OPERATING ACTIVITIES</b>	<b>(1,314,226)</b>	<b>(1,326,636)</b>
<b>NET CASH PROVIDED BY OPERATING FACILITIES</b>	<b>81,233</b>	<b>76,778</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
<b>INFLOWS</b>		
Interest received	1,344	1,120
Repayment of short-term deposits	-	6,000
<b>TOTAL INFLOWS FROM INVESTING ACTIVITIES</b>	<b>1,344</b>	<b>7,120</b>
<b>OUTFLOWS</b>		
Investment of short-term deposits	(7,500)	(2,000)
Purchases of intangible assets	(1,992)	(2,128)
Purchases of property, plant and equipment	(1,105)	(5,060)
<b>TOTAL OUTFLOWS FROM INVESTING ACTIVITIES</b>	<b>(10,597)</b>	<b>(9,188)</b>
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(9,253)</b>	<b>(2,068)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
<b>OUTFLOWS</b>		
Interest paid	(283)	(198)
Distributions to the racing codes	(71,210)	(70,926)
Gaming distributions to the racing industry	(2,124)	(1,823)
Gaming distribution to external bodies	(2,541)	(2,062)
Repayment of finance lease	(156)	(246)
<b>TOTAL OUTFLOWS FROM FINANCING ACTIVITIES</b>	<b>(76,314)</b>	<b>(75,255)</b>
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(76,314)</b>	<b>(75,255)</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(4,334)</b>	<b>(545)</b>
Cash and cash equivalents as at the beginning of the period	30,807	20,717
Foreign exchange loss on cash and cash equivalents	(127)	(107)
<b>CASH AND CASH EQUIVALENTS AS AT THE END OF THE PERIOD</b>	<b>26,346</b>	<b>20,065</b>

# NZRB INTERIM FINANCIAL STATEMENTS 2017

## CONDENSED NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 JANUARY 2017

The purpose of these interim financial statements is to report on the financial performance for the six months ended 31 January 2017. Additionally, these financial statements report on transactions and events that are significant in gaining an understanding of the changes in financial position and performance of NZRB since NZRB's previous year end, 31 July 2016. Accordingly, it focuses on new actions, events and circumstances and does not duplicate information previously reported in NZRB's financial statements for the year ended 31 July 2016.

**The notes to the financial statements include information which is required to understand the financial statements and information that is material and relevant to the financial performance, financial position and operations of NZRB.**

The notes to the financial statements are organised into the following sections:

**Basis of preparation:** sets out the accounting policies that relate to the financial statements as a whole.

**Internal reporting:** provides information about how the key numbers of NZRB are reported internally.

**Key numbers:** provides a breakdown of NZRB's financial performance. This section highlights the link between the income derived and the return provided to NZRB's stakeholders.

**Other:** provides some additional information required to understand these financial statements.

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# NZRB INTERIM FINANCIAL STATEMENTS 2017

## CONDENSED NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 JANUARY 2017 (CONTINUED)

### Who is NZRB and what was the basis of financial statement preparation?

This section sets out the accounting policies that relate to the financial statements as a whole. Where an accounting policy is specific to one note, the policy is described in the note to which it relates.

#### 1. BASIS OF PREPARATION

##### REPORTING ENTITY AND STATUTORY BASE

The New Zealand Racing Board (NZRB) is a statutory body established by the Racing Act 2003. In previous periods, the customer betting accounts and betting vouchers offered were debt securities within the meaning of the Securities Act 1978 and NZRB was therefore an issuer for the purposes of the Financial Reporting Act 1993. The Financial Markets Conduct Act 2013 (FMCA) has replaced the Securities Act 1978 during the period. The customer betting accounts and betting vouchers do not fall within the scope of the FMCA, and therefore NZRB is not a FMC reporting entity. NZRB however, is required to prepare financial statements that comply with Generally Accepted Accounting Principles (GAAP) under the Racing Act 2003. On this basis, NZRB has transitioned to the Financial Reporting Act 2013 which defines GAAP in New Zealand.

NZRB is domiciled in New Zealand.

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

##### STATEMENT OF COMPLIANCE

For financial reporting purposes, NZRB is designated a for-profit entity. The Group is a Tier-1 entity, under the XRB A1 Accounting Standards Framework (For-Profit Entities reporting standards). These financial statements are prepared in accordance with NZ IAS 34 'Interim Financial Reporting' and New Zealand Generally Accepted Accounting Principles (NZ GAAP).

These unaudited statements do not include all the disclosures required for full annual financial statements prepared in accordance with NZ IFRS and should be read in conjunction with the financial statements and related notes included in NZRB's financial statements for the year ended 31 July 2016.

##### BASIS OF MEASUREMENT

These financial statements have been prepared on the historical cost basis. The Group financial statements are presented in New Zealand dollars (\$) (the presentation currency), which is NZRB's functional currency.

##### CHANGES IN ACCOUNTING POLICIES

There have been no changes in accounting policies during the six months ended 31 January 2017. All the accounting policies have been applied consistently throughout the period and are the same as those used in the financial statements for the year ended 31 July 2016.

# NZRB INTERIM FINANCIAL STATEMENTS 2017

## CONDENSED NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 JANUARY 2017 (CONTINUED)

### How were the results of NZRB reported internally?

#### 2. OPERATING SEGMENTS

The following is an analysis of the Group's profit by reportable segments. There have been no changes in the nature of operating segments since 31 July 2016.

31 JANUARY 2017

##### NET PROFIT BEFORE DISTRIBUTIONS

Less distributions

Less provision for undistributed Gaming net profit

##### NET PROFIT AFTER DISTRIBUTIONS

UNAUDITED - GROUP			
Betting	Gaming	Other	Total
\$000	\$000	\$000	\$000
74,906	7,998	(2,849)	80,055
(73,225)	(6,297)	3,017	(76,505)
-	(1,701)	-	(1,701)
<b>1,681</b>	<b>-</b>	<b>168</b>	<b>1,849</b>

31 JANUARY 2016

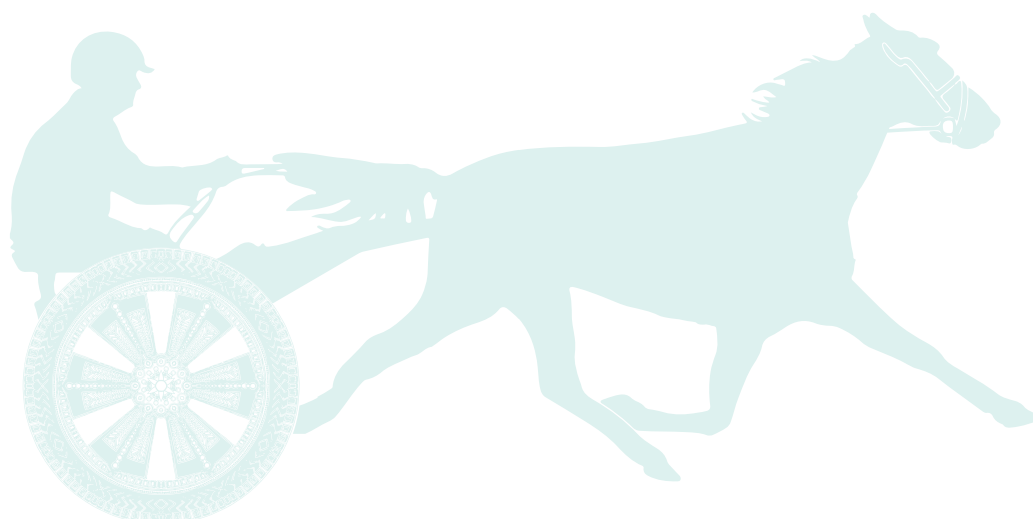
##### NET PROFIT BEFORE DISTRIBUTIONS

Less distributions

Less provision for undistributed Gaming net profit

##### NET PROFIT AFTER DISTRIBUTIONS

UNAUDITED - GROUP			
Betting	Gaming	Other	Total
\$000	\$000	\$000	\$000
70,023	7,633	(2,737)	74,919
(72,063)	(6,465)	3,052	(75,476)
-	(1,168)	-	(1,168)
<b>(2,040)</b>	<b>-</b>	<b>315</b>	<b>(1,725)</b>



# NZRB INTERIM FINANCIAL STATEMENTS 2017

## CONDENSED NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 JANUARY 2017 (CONTINUED)

NZRB distributes almost all of its net profit to the Racing Industry and Sporting Community Organisations. This section focuses on the net profit of NZRB that enabled this return to its stakeholders. Starting with a breakdown of total distributions, on the following pages you will find a breakdown of individual line items recognised in the Condensed Statement of Profit or Loss and Other Comprehensive Income.

### Key Numbers: What was the return to NZRB's stakeholders?

## 3. DISTRIBUTIONS

UNAUDITED				
31 JANUARY 2017	Betting	Gaming	Undistributed Gaming net profit from 31 July 2016	TOTAL
	\$000	\$000	\$000	\$000
<b>DISTRIBUTIONS TO THE RACING INDUSTRY</b>				
Code funding	73,225	-	-	73,225
Judicial Control Authority	-	546	104	650
Racing Integrity Unit	-	2,647	370	3,017
Racing Laboratory Services	-	782	150	932
Other application of funds from Gaming operations				
Events, Marketing and Logistics	-	507	-	507
Race form publications	-	793	-	793
Racing infrastructure	-	20	-	20
<b>TOTAL DISTRIBUTIONS TO RACING INDUSTRY</b>	<b>73,225</b>	<b>5,295</b>	<b>624</b>	<b>79,144</b>
<b>Distributions to Sporting Community Organisations</b>				
Sports Authorised Purposes (paid and payable)	-	1,002	150	1,152
<b>TOTAL DISTRIBUTIONS TO SPORTING COMMUNITY ORGANISATIONS</b>		<b>1,002</b>	<b>150</b>	<b>1,152</b>
Reversal of prior year provision for undistributed net profit	-	-	(774)	(774)
<b>TOTAL DISTRIBUTIONS FROM NZRB PARENT</b>	<b>73,225</b>	<b>6,297</b>	<b>-</b>	<b>79,522</b>
Distributions to RIU - eliminated on consolidation	-	(3,017)	-	(3,017)
<b>TOTAL DISTRIBUTIONS FROM GROUP</b>	<b>73,225</b>	<b>3,280</b>	<b>-</b>	<b>76,505</b>

UNAUDITED				
31 JANUARY 2016	Betting	Gaming	Undistributed Gaming net profit from 31 July 2015	TOTAL
	\$000	\$000	\$000	\$000
<b>DISTRIBUTIONS TO THE RACING INDUSTRY</b>				
Code funding	72,063	-	-	72,063
Judicial Control Authority	-	542	108	650
Racing Integrity Unit	-	3,052	-	3,052
Racing Laboratory Services	-	746	133	879
Other application of funds from Gaming operations				
Events, Marketing and Logistics	-	234	-	234
Race form publications	-	1,012	-	1,012
<b>TOTAL DISTRIBUTIONS TO RACING INDUSTRY</b>	<b>72,063</b>	<b>5,586</b>	<b>241</b>	<b>77,890</b>
<b>Distributions to Sporting Community Organisations</b>				
Sports Authorised Purposes (paid and payable)	-	879	60	939
<b>TOTAL DISTRIBUTIONS TO SPORTING COMMUNITY ORGANISATIONS</b>	<b>-</b>	<b>879</b>	<b>60</b>	<b>939</b>
Reversal of prior year provision for undistributed net profit	-	-	(301)	(301)
<b>TOTAL DISTRIBUTIONS FROM NZRB PARENT</b>	<b>72,063</b>	<b>6,465</b>	<b>-</b>	<b>78,528</b>
Distributions to RIU - eliminated on consolidation	-	(3,052)	-	(3,052)
<b>TOTAL DISTRIBUTIONS FROM GROUP</b>	<b>72,063</b>	<b>3,413</b>	<b>-</b>	<b>75,476</b>



# NZRB INTERIM FINANCIAL STATEMENTS 2017

## CONDENSED NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 JANUARY 2017 (CONTINUED)

### Key Numbers: Where did NZRB's revenue come from?

#### 4. REVENUE

##### 4a. TURNOVER (including GST)

Betting turnover - racing totalisator

Betting turnover - racing fixed odds

**Total betting turnover - racing**

Betting turnover - sports totalisator

Betting turnover - sports fixed odds

**Total betting turnover - sports**

**Total betting turnover**

**Gaming turnover**

**TOTAL BETTING AND GAMING TURNOVER**

##### 4b. NET BETTING REVENUE

Total betting turnover

Less: dividends payable

Gross betting revenue

Betting duty

GST

Problem gambling levy

**NET BETTING REVENUE**

##### 4c. NET GAMING REVENUE

Gaming turnover

Less: dividends paid

Gross gaming revenue

Gaming machine duty

GST

Problem gambling levy

**NET GAMING REVENUE**

UNAUDITED	
31 JANUARY 2017 CONSOLIDATED \$000	31 JANUARY 2016 CONSOLIDATED \$000
543,918	590,132
335,582	320,147
879,500	910,279
-	370
276,492	276,678
276,492	277,048
<b>1,155,992</b>	<b>1,187,327</b>
<b>220,023</b>	<b>194,653</b>
<b>1,376,015</b>	<b>1,381,980</b>
1,155,992	1,187,327
(978,671)	(1,015,144)
177,321	172,183
(6,968)	(6,769)
(23,949)	(23,143)
(919)	(1,033)
<b>145,485</b>	<b>141,238</b>
220,023	194,653
(200,848)	(177,492)
19,175	17,161
(3,835)	(3,432)
(2,501)	(2,238)
(249)	(225)
<b>12,590</b>	<b>11,266</b>

#### 5. OTHER REVENUE

Interest

(Loss) on disposal of property, plant and equipment

Merchant fee revenue

Racing services

Revenue from broadcasting within New Zealand

Other revenue

**TOTAL OTHER REVENUE**

UNAUDITED	
31 JANUARY 2017 CONSOLIDATED \$000	31 JANUARY 2016 CONSOLIDATED \$000
931	961
(2)	(5)
1,909	1,158
7,092	7,240
355	404
2,970	3,016
<b>13,255</b>	<b>12,774</b>

# NZRB INTERIM FINANCIAL STATEMENTS 2017

## CONDENSED NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 JANUARY 2017 (CONTINUED)

### Key Numbers: What costs were incurred in deriving this revenue?

#### 6. TURNOVER RELATED EXPENSES

	UNAUDITED	
	31 JANUARY 2017 CONSOLIDATED \$000	31 JANUARY 2016 CONSOLIDATED \$000
Advertising and promotions	3,394	3,917
Commingling fee	564	826
National sporting organisations	4,466	3,824
Overseas racing rights	14,437	14,357
Retail fees	8,244	8,395
Race form publications	1,730	1,954
Less: race form publications recovered from Gaming	(793)	(1,012)
Other turnover related expenses	2,124	1,746
<b>TOTAL TURNOVER RELATED EXPENSES</b>	<b>34,166</b>	<b>34,007</b>

Race form publications recovered from Gaming relates to the application of funds from Gaming to reimburse certain race form publication expenses under its Racing Authorised Purpose. Refer to note 3.

#### 7. PREMISES AND EQUIPMENT EXPENSES

	UNAUDITED	
	31 JANUARY 2017 CONSOLIDATED \$000	31 JANUARY 2016 CONSOLIDATED \$000
Rent	3,754	3,619
Repairs and maintenance	1,169	1,361
Other premises and equipment expenses	2,590	2,508
<b>TOTAL PREMISES AND EQUIPMENT EXPENSES</b>	<b>7,513</b>	<b>7,488</b>

#### 8. STAFF EXPENSES

	UNAUDITED	
	31 JANUARY 2017 CONSOLIDATED \$000	31 JANUARY 2016 CONSOLIDATED \$000
Salaries and wages (including contractors)	29,729	30,007
Termination payments	2	198
Other staff expenses	2,338	2,203
<b>TOTAL STAFF EXPENSES</b>	<b>32,069</b>	<b>32,408</b>

# NZRB INTERIM FINANCIAL STATEMENTS 2017

## CONDENSED NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 JANUARY 2017 (CONTINUED)

### Key Numbers: What costs were incurred in deriving this revenue?

#### 9. OTHER OPERATING EXPENSES

Auditors remuneration

- Audit and review services
- Taxation compliance services
- Treasury advisory services
- Other services <sup>1</sup>

Board members

Consultancy

Impairment

Interest

Legal

Merchant

Printing and stationery

RIU swabbing costs

Travel and accommodation

Other operating expenses

Less: EML costs recovered from Gaming <sup>2</sup>

**TOTAL OTHER OPERATING EXPENSES**

UNAUDITED	
31 JANUARY 2017 CONSOLIDATED \$000	31 JANUARY 2016 CONSOLIDATED \$000
84	75
6	9
2	7
3	7
195	195
1,082	1,134
80	21
183	198
190	175
1,990	1,781
241	237
660	568
1,700	1,546
1,161	1,133
(507)	(234)
<b>7,070</b>	<b>6,852</b>

<sup>1</sup> Other services relate to the review of the gaming financial statements and forecast information for Class 4 relicensing purposes and review of club financial statement template in the 2016 financial year.

<sup>2</sup> Events, Marketing and Logistics (EML) costs recovered from Gaming relates to the application of funds from Gaming to reimburse certain promotional expenses under its Racing Authorised Purpose. Refer to note 3.

#### 10. RELATED PARTIES

There have been no significant changes to the related parties or transactions with related parties since 31 July 2016.



# NZRB INTERIM FINANCIAL STATEMENTS 2017

## CONDENSED NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 JANUARY 2017 (CONTINUED)

### Other

#### 11. OTHER FINANCIAL ASSETS

Industry loans - RACE Inc  
Term deposits - Betting Accounts and Vouchers Trust  
Term deposits  
Other

##### TOTAL OTHER OPERATING ASSETS

Disclosed as:

Current  
Non-current

##### TOTAL OTHER OPERATING ASSETS

	UNAUDITED	AUDITED
	31 JANUARY 2017 CONSOLIDATED \$000	31 JULY 2016 CONSOLIDATED \$000
Industry loans - RACE Inc	2,640	2,615
Term deposits - Betting Accounts and Vouchers Trust	22,000	22,000
Term deposits	16,500	9,000
Other	77	77
<b>TOTAL OTHER OPERATING ASSETS</b>	<b>41,217</b>	<b>33,692</b>
Disclosed as:		
Current	38,500	31,000
Non-current	2,717	2,692
<b>TOTAL OTHER OPERATING ASSETS</b>	<b>41,217</b>	<b>33,692</b>

Betting Accounts and Betting Vouchers Trust short-term deposits are funds held in trust to cover the balance of customer betting accounts deposits and vouchers liability. The short-term deposit of \$22.0 million and \$3.0 million included in the cash and cash equivalents balance is held to cover the total owed to customers of betting account deposits and vouchers liability of \$22.9 million. The deposits and cash balance held in trust are not available for use by NZRB in the ordinary course of business up to the value of the betting deposits and vouchers liability.

#### 12. SUBSEQUENT EVENTS

On 31 March 2017 the sale of the Hamilton office building was concluded for a sale price of \$1.4 million. Settlement, title transfer and the subsequent gain on sale of \$0.6 million was recognised on this date.



## **Independent Review report**

to the Board Members of the New Zealand Racing Board

### **Report on the Interim Financial Statements**

We have reviewed the accompanying financial statements of the New Zealand Racing Board and the entities it controlled (together “the Group”) on pages 8 to 19, which comprise the condensed statement of financial position as at 31 January 2017, and the condensed statement of profit or loss and other comprehensive income, the condensed statement of changes in equity and the condensed statement of cash flows for the period ended on that date, and notes to the financial statements.

### **Board Members’ Responsibility for the Financial Statements**

The Board members are responsible on behalf of the Group for the preparation and presentation of these financial statements in accordance with New Zealand Equivalent to International Accounting Standard 34 Interim Financial Reporting (NZ IAS 34) and International Accounting Standard 34 Interim Financial Reporting (IAS 34) 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.

### **Our Responsibility**

Our responsibility is to express a conclusion on the accompanying financial statements based on our review. We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* (NZ SRE 2410). NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements, taken as a whole, are not prepared in all material respects, in accordance with NZ IAS 34 and IAS 34. As the auditors of the Company, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditors perform procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on these financial statements.

We are independent of the Group. Our firm carries out other services for the Group in the areas of assurance, tax, and treasury advisory services. The provision of these other services has not impaired our independence.

### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that these financial statements of the Group are not prepared, in all material respects, in accordance with NZ IAS 34 and IAS 34.

### **Restriction on Distribution or Use**

This report is made solely to the Board members of New Zealand Racing Board, as a body. Our review work has been undertaken so that we might state to the Board members those matters which we are required to state to them in our review 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 Board Members of the New Zealand Racing Board, as a body, for our review procedures, for this report, or for the conclusion we have formed.

For and on behalf of:



Chartered Accountants  
18 April 2017

Wellington