

The New Zealand Racing Board Interim Financial Statements

For the six months ended 31 January 2016



NEW ZEALAND
RACING BOARD


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Update From the Chief Executive



This has been a positive six months for the New Zealand Racing Board (NZRB) and for the racing industry. With betting turnover up 11.7% and profit up 4.3% year-on-year excluding the sale of the Petone building, NZRB is well positioned to deliver our ambitious profit target of \$144.2 million in the 2015/16 year. More broadly, our industry has enjoyed a successful spring-summer season, with notable performances by our horses and dogs both in New Zealand and on the international stage. The achievements of our men and women across the industry, and a strong showing at the Karaka Sales last month has underscored the value of the industry as an employer, attractor of international investment and as an internationally competitive export business.

In the half year we distributed \$72.1 million to the Codes, provided \$3.8 million in national sporting organisation commissions (up 42% on last year), distributed \$0.9 million to amateur sport from our Gaming activities, and provided \$36.8 million to the Government.

The trends seen in prior periods continue:

- a move from tote to fixed odds (Racing Tote -9.4%, FOB +38.4%);
- strong growth in in-play sports betting with turnover up 94.2% although at a low margin of 4.5%;
- accelerating customer preference for digital (up 25.0%) with retail holding its own (up 2%) and on-course and telephony (down 8.6% and 12.7% respectively);
- continued importance of imported product and international markets with betting on Australian racing representing 51.4% of total racing turnover and New Zealand racing shown overseas delivering income of \$11.3 million up 6.0% year-on-year; and
- a decline in gross betting margin (from 15.9% in 2015 to 14.7% in 2016).

NZRB is focused on sustaining the positive momentum achieved in the first half of the year. This requires us to lower costs, improve the competitiveness of market offering and develop greater alignment across all industry participants.

In particular we are working on:

- **Improving NZRB's financial performance.** We are on track to deliver our targeted profit of \$144.2 million. Our net profit result for the first six months is \$74.9 million, right on budget, and 4% ahead of last year. This includes \$70 million from Betting, \$7.6 million from Gaming and our \$3.1 million payment to fund the Racing Integrity Unit. Margins have been lower than expected particularly in fixed odds racing and sports betting – our fastest growing areas of business. The growth of this lower margin business is increasing the volatility in our earnings. This requires a focus on costs. A great deal of work has either been completed or is underway. In particular, property consolidation in both Auckland and Wellington and the removal of bonuses that were part of senior staff packages has sent a strong signal of our determination to drive costs lower. Total staff costs (which included one-off costs of \$1.5 million in comparison to last year to enable longer-term cost savings) were less than 1% above last year while salaries were 10% below budget (up 2% on last year) and contractor costs fell 47% year-on-year. More progress on changing our cost structure and improving margins will be made over the next six months when we deliver business cases for key changes in our Fixed Odds Betting infrastructure (through the implementation of an automated platform) and in the way we sell to and service customers (with reviews and decisions around our retail, digital and telephony channels). There was a budgeted increase to operating expenses of \$2.7 million for work to deliver the Optimus Programme. This business improvement programme will deliver benefits including long-term financial savings through a strategic partnership with Spark Digital for IT support services, as well as other significant benefits in terms of risk, capability, mobility, and collaboration opportunities.
- **Increasing financial returns for all.** This work which is founded on detailed economic analysis of the industry confirms change is needed to sustain racing in New Zealand. The domestic industry is not delivering an

Update From the Chief Executive (cont)

economic return and is being cross-subsidised by international racing. The changes suggested will address the structure of the racing calendar, the number of tracks and clubs and the facilities available at them, and the way in which NZRB profits are distributed to the industry. In addition, we have been working hard on securing greater clarity around the tax treatment for those who invest in horses for breeding purposes, and in progressing and shaping the terms of legislation which will impact us all; particularly off-shore betting (which we expect to be considered by Cabinet in Q3 FY16), earthquake building standards, health and safety and legislative change to give greater flexibility in the use of race course reserve land.

- **Growing New Zealanders' participation in racing and betting.** This remains a key challenge. It is in part about the visibility of our industry (on TV and digital platforms), in part about simplifying our products and processes, and enhancing the breadth and competitiveness of our offering, and in part about education. We are particularly focused on the barriers to people betting with us. If we are to achieve the growth required to sustain the industry we need to substantially increase the number of customers over the next few years. We will be working to introduce new initiatives and reshape our channels to market product design and sales approach. We are making progress with active account customers in the six months to 31 January 2016 up 15% on the same period last year.

The major projects we are working on this year are:

Project	Anticipated gross benefit	Decision expected by	Costs to deliver
Off-Shore Betting	\$16m p.a. <i>(working party estimate)</i>	Mid 2016 with implementation in 2017	Low
Fixed Odds Betting Platform	\$20m - \$30m p.a. <i>(2%-3% increase in margin)</i>	June/July 2016	Moderate-High <i>Will depend on model chosen (Ownership, license or partnership)</i>
Channel Strategy	\$10m - \$15m p.a. <i>(initial high level estimates not yet fully analysed)</i>	Mid 2016 <i>(some elements earlier)</i>	Moderate-High -Potential people changes -Technology investment
Customer Growth	\$10m - \$15m p.a. <i>(initial high level estimates not yet fully analysed)</i>	Analysis complete by May 2016 <i>Decisions August 2016</i>	Moderate -Market analysis -Targeted acquisition retention
Optimise the Calendar	\$8m - \$12m p.a. <i>(initial high level estimates not yet fully analysed)</i>	Analysis complete by May 2016	Moderate

NZRB is totally committed to delivering these programmes and improving returns. It is not easy. If it was, these steps would have been completed long ago. There will be distractions and disruptions (betting is a volatile business) but working together it can be done.

While these transformation initiatives are being advanced, NZRB understands it is important we achieve some quick wins. We are looking at a number of these, which we expect to implement this financial year. The investment we have made to provide beefed up advice and support to the Breeding industry in its longstanding dialogue with the IRD is an example as is our increased outreach to politicians and other stakeholders to raise the profile of the industry. We are committed to continuing to invest in our industry, and in particular in new ideas and innovation, as we drive major change over the next 18 months.

The new leadership team is in place and you can expect to see the pace of implementation pick up over the balance of the year. We will be working closely with the industry and with our betting customers as we do this.

Thank you for your continuing support.

John Allen

Chief Executive Officer

Financial Commentary

FOR THE SIX MONTHS ENDED 31 JANUARY 2016

The New Zealand Racing Board (NZRB) achieved a net profit of \$74.9 million for the first half of the 2016 year, in line with Budget and \$3.1 million (4.3%) ahead of last year, excluding the prior year gain on sale of the Petone Head Office building of \$4.9 million.

CURRENT PERIOD FINANCIAL PERFORMANCE AGAINST PRIOR PERIOD

Betting and gaming turnover

Betting turnover was strong in the first half at \$1,187.3 million or 11.7% higher than for the same period last year. Higher customer numbers and more Fixed Odds Betting options are having a significant positive impact on overall turnover, driven by strong marketing campaigns around the Rugby World Cup, Melbourne Cup and TAB Apprentice programmes. This was partly offset by a decline in racing tote turnover of 9.2%. Sports turnover was up 53.3% on prior year, reflecting the growing preference of customers towards in-play sports betting that was up 100% on last year.

Gaming turnover increased by \$40.5 million or 26.3%. Gaming continues to perform strongly in line with investment behind new outlets that are progressively coming online. Three new stores, Napier, Bethlehem and Mayfields were opened in the current year.

Revenue

Total revenue was \$176.5 million, an increase of \$6.8 million or 4.1% compared to last year, excluding the gain on sale of the Petone building included in prior year.

Net betting revenue was \$141.2 million, an increase of \$3.9 million or 2.9% higher than last year, as a result of the higher turnover, partially offset by a decline in net betting margin (11.9% compared to 12.9% to January 2015). The continual shift in customer preference from tote to fixed odds betting in Racing and growth in in-play sports betting has diluted betting margins. Tote net betting revenue declined by \$61.0 million (9.4%) compared to last year, whilst sports betting grew \$96.0 million (53.3%).

Net gaming revenue was \$2.3 million or 26.1% above the first half of the 2015 year as a result of new stores opening, driving higher turnover.

Other revenue was \$24.0 million for the first half of the 2016 year. Other revenue has increased by \$0.6 million or 2.6%, excluding the gain on sale of the Petone building in prior year. This is driven mainly by an increase in NZ racing shown overseas revenue (export revenue).

Expenses

Turnover related expenses were \$0.3 million or 0.8% higher than the first half of the 2015 year, resulting from the increase in turnover. The increase was driven mainly from increased national sporting organisation commissions of \$3.8 million (an increase of \$1.1 million) and overseas racing rights on both sports betting and overseas racing betting (\$0.6 million), offset by lower advertising and promotional activity (\$0.9 million).

Operating expenses increased \$3.5 million or 5.5% on the prior year driven largely by communication and technology expenses that have increased by \$2.5 million (50.7%). This mainly represents the new managed service with Spark relating to the Optimus programme (\$2.7 million) in line with Budget.

A disciplined approach to cost management is yielding savings across various areas including insurance, chargebacks and property with staff expenses also coming in \$0.3 million or 0.8% higher than last year.

Net profit

Net profit was \$3.1 million or 4.3% above the prior year, excluding the gain on sale of the Petone building.

Total distributions to both the racing industry and external amateur sporting organisations from Gaming operations increased by \$0.6 million or 0.8%.

	UNAUDITED 31 JANUARY 2016 Consolidated NZ\$000	UNAUDITED 31 JANUARY 2015 Consolidated NZ\$000	% Change
Betting and gaming turnover	1,381,980	1,217,333	13.5%
Net profit before distributions including gain on sale of Petone in 2015	74,919	76,776	(2.4%)
Net profit excluding gain on sale of Petone building in 2015	74,919	71,846	4.3%
Distributions to racing industry	77,890	78,131	(0.3%)
Total distributions	75,476	74,842	0.8%

Financial Position

Cash and term deposit balances, after excluding those relating to Betting Accounts and Vouchers Trust, are \$24.1 million, a reduction of \$4.6 million (16%) since July 2015. Cash and term deposit balances have decreased due to the continued investment in projects and capital expenditure. In addition, there has been an increase of \$2.0 million of term deposits in the Trust account to cover the increase in the Betting accounts liability.

Trade and other receivables have increased by \$4.3 million (45.7%) compared to July 2015. Trade receivables are seasonally higher in January due to the increased operating activity compared to July. Furthermore, 31 January fell on a Sunday

resulting in high receivables from retail outlets (excluding Branches) and internet receipts from the weekend trading.

Total liabilities have remained at a constant level since July 2015, increasing by only \$0.6 million or 1.0%. Customer Betting Account Deposits and Vouchers balance also increased by \$0.7 million, reflecting the increased betting activity and customer numbers during the first six months of the 2016 year.

Total equity was \$69.5 million as at 31 January 2016, decreasing by \$1.3 million or 1.9% since July 2015.

Financial Commentary (cont)

FOR THE SIX MONTHS ENDED 31 JANUARY 2016

CURRENT PERIOD FINANCIAL PERFORMANCE AGAINST BUDGET

Betting and gaming turnover

Total betting and gaming turnover performed better than expected ahead of Budget by \$104.9 million (9.7%). For betting, turnover was ahead of Budget by \$106.9 million or 9.9%. The major contributors to this performance were higher customer numbers, stronger betting activity from high staking customers and growth in in-play sports driven by customer preference. Sports turnover was up \$60.5 million or 28.0% compared to Budget driven by significant in-play growth. Racing fixed odds turnover also performed better than anticipated, up \$29.2 million or 10.0% combined with higher tote turnover, up \$17.1 million (3%) on the back of transitional arrangements with Tabcorp.

Gaming turnover was \$2.0 million or 1.0% below Budget. This was driven by delayed openings of budgeted new sites.

Income

Net betting revenue was \$1.2 million or 0.8% ahead of Budget arising from higher than budgeted turnover offset partly by lower than anticipated budgeted margins. While the shift in customer preference from tote to fixed odds in racing and growth in in-play sports betting continues to dilute betting margins, overall betting revenue continues to grow.

Net gaming revenue was \$0.4 million or 3.0% lower than Budget as a result of lower turnover referred to above.

Other revenue was under Budget by 0.2%. This was driven by higher than expected NZ racing shown overseas or export revenue (\$0.9 million) due to continued growth in AUD turnover, off-set by lower than expected advertising income (\$0.7 million).

Expenses

Turnover related expenses were \$2.5 million or 7.9% higher than Budget. Strong sports turnover drove \$0.6 million of additional national sporting organisation commissions combined with higher overseas racing rights on imported racing, that were \$2.9

million higher than Budget due to a larger mix of import racing than anticipated.

Operating expenses were below Budget by \$1.8 million (2.6%) driven by savings across staff expenses, communications and technology, broadcasting and depreciation, offset by higher premises and equipment costs.

Staff expenses were below Budget by \$1.0 million (2.9%), due to control over staff numbers and savings in recruitment and training.

Communications and technology expenses were \$0.6 million (7.9%) under Budget with savings in maintenance, managed services and software license fees.

Savings in broadcasting costs of \$0.2 million (3.6%) have been driven by lower than expected studio production costs.

Depreciation and amortisation expenses are below Budget by \$0.8 million (9%) due to lower than expected investment in capital project in the first half of 2016.

Premises and equipment costs were above Budget by \$1.0 million due to timing of budgeted cost savings initiatives being implemented that are being progressed in the second half of 2016.

Other expenses were below Budget by \$0.4 million (5.6%) due to a combination of lower legal fees and travel and accommodation, offset by higher than expected consultancy expenses due to the Top 5 strategic projects.

Net profit

Net profit was in line with Budget.

	UNAUDITED ACTUAL 31 JANUARY 2016 Consolidated NZ\$000	UNAUDITED BUDGET 31 JANUARY 2015 Consolidated NZ\$000	VARIANCE NZ\$000
BETTING AND GAMING TURNOVER	1,381,980	1,277,111	104,869
REVENUE			
Net betting revenue	141,238	140,076	1,162
Net gaming revenue	11,266	11,618	(352)
Other revenue	23,975	24,031	(56)
TOTAL REVENUE	176,479	175,725	754
TURNOVER RELATED EXPENSES	34,007	31,523	(2,484)
OPERATING EXPENSES	67,553	69,341	1,788
NET PROFIT BEFORE DISTRIBUTIONS	74,919	74,861	58

Condensed Statement of Profit or Loss and Other Comprehensive Income

FOR THE SIX MONTHS ENDED 31 JANUARY 2016

	NOTE	UNAUDITED 31 JANUARY 2016 Consolidated NZ\$000	UNAUDITED 31 JANUARY 2015 Consolidated NZ\$000
BETTING AND GAMING TURNOVER	4a	1,381,980	1,217,333
REVENUE			
Net betting revenue	4b	141,238	137,299
Net gaming revenue	4c	11,266	8,937
Other revenue	5	23,975	28,301
TOTAL REVENUE		176,479	174,537
TURNOVER RELATED EXPENSES	6	34,007	33,726
PROFIT CONTRIBUTION		142,472	140,811
OPERATING EXPENSES			
Broadcasting expenses		5,019	4,658
Communication and technology expenses		7,569	5,023
Premises and equipment expenses	7	7,488	7,668
Staff expenses	8	32,441	32,169
Depreciation and amortisation		8,097	8,012
Foreign exchange gain		120	203
Other operating expenses	9	6,819	6,302
TOTAL OPERATING EXPENSES		67,553	64,035
NET PROFIT BEFORE DISTRIBUTIONS		74,919	76,776
Distributions	3	75,476	74,842
Provision for undistributed gaming surplus		1,168	880
NET (LOSS) / PROFIT AFTER DISTRIBUTIONS		(1,725)	1,054
OTHER COMPREHENSIVE INCOME			
Movement in fair value of cash flow hedges *		404	103
TOTAL OTHER COMPREHENSIVE (LOSS) / INCOME FOR THE PERIOD		(1,321)	1,157
Total other comprehensive (loss) / income attributable to:			
Non-controlling interests in RIU		236	196
NZRB reserves		(1,557)	961
		(1,321)	1,157

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

Condensed Statement of Changes in Equity

FOR THE SIX MONTHS ENDED 31 JANUARY 2016

	UNAUDITED ATTRIBUTABLE TO NZRB			UNAUDITED GROUP	
	General reserve	Hedging reserve	TOTAL	Non-controlling interest	TOTAL GROUP EQUITY
	NZ\$000	NZ\$000	NZ\$000	NZ\$000	NZ\$000
BALANCE AS AT 1 AUGUST 2014	68,065	-	68,065	23	68,088
Net loss after distributions	858	-	858	196	1,054
Other comprehensive loss	-	103	103	-	103
BALANCE AS AT 31 JANUARY 2015	68,923	103	69,026	219	69,245
BALANCE AS AT 1 AUGUST 2015	71,005	(336)	70,669	166	70,835
Net loss after distributions	(1,961)	-	(1,961)	236	(1,725)
Other comprehensive loss	-	404	404	-	404
BALANCE AS AT 31 JANUARY 2016	69,044	68	69,112	402	69,514

Condensed Statement of Financial Position

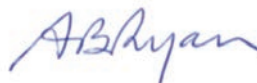
AS AT 31 JANUARY 2016

	NOTE	UNAUDITED 31 JANUARY 2016 Consolidated NZ\$000	AUDITED 31 JULY 2015 Consolidated NZ\$000
CURRENT ASSETS			
Cash and cash equivalents		20,065	20,717
Derivative assets		27	-
Trade and other receivables		13,554	9,301
Non-current assets held for sale		1,087	1,314
Other financial assets	11	27,000	31,088
Other current assets		2,480	1,903
TOTAL CURRENT ASSETS		64,213	64,323
NON-CURRENT ASSETS			
Property, plant and equipment		46,422	47,930
Intangible assets (including software assets)		16,458	16,612
Other financial assets	11	2,814	2,686
Other non-current assets		1,266	351
TOTAL NON-CURRENT ASSETS		66,960	67,579
TOTAL ASSETS		131,173	131,902
CURRENT LIABILITIES			
Trade and other payables		22,382	23,277
Customer betting account deposits and vouchers		22,179	21,451
Other financial liabilities		5,765	6,303
Derivative liabilities		-	346
Taxation payable		4,978	3,329
Provisions		2,263	1,951
TOTAL CURRENT LIABILITIES		57,567	56,657
NON-CURRENT LIABILITIES			
Other financial liabilities		3,175	3,315
Provisions		917	1,095
TOTAL NON-CURRENT LIABILITIES		4,092	4,410
TOTAL LIABILITIES		61,659	61,067
TOTAL EQUITY		69,514	70,835
TOTAL LIABILITIES AND EQUITY		131,173	131,902

The Board members of the New Zealand Racing Board authorised these financial statements for issue on 22 March 2016


Glenda Hughes

Chair of the New Zealand Racing Board


Alistair RyanChair of the Audit and Risk Committee
of the New Zealand Racing Board

Condensed Statement of Cash Flows

FOR THE SIX MONTHS ENDED 31 JANUARY 2016

	UNAUDITED 31 JANUARY 2016 Consolidated NZ\$000	UNAUDITED 31 JANUARY 2015 Consolidated NZ\$000
CASH FLOWS FROM OPERATING ACTIVITIES		
INFLOWS		
Betting and gaming turnover	1,381,632	1,218,148
NZ racing shown overseas and other revenue	13,021	11,833
Racing services	7,240	7,384
Jackpot retentions and account deposits (net)	1,521	3,211
TOTAL INFLOWS FROM OPERATING ACTIVITIES	1,403,414	1,240,576
OUTFLOWS		
Betting and gaming dividends paid	(1,193,399)	(1,036,343)
Goods and services tax (net)	(23,914)	(22,577)
Betting and gaming duty paid	(11,142)	(10,572)
National sporting organisations	(4,403)	(3,448)
Payments to suppliers	(61,132)	(59,090)
Payments for employee benefits including termination payments	(32,646)	(32,071)
TOTAL OUTFLOWS FROM OPERATING ACTIVITIES	(1,326,636)	(1,164,101)
NET CASH PROVIDED BY OPERATING ACTIVITIES	76,778	76,475
CASH FLOWS FROM INVESTING ACTIVITIES		
INFLOWS		
Interest received	1,120	1,252
Repayment of short-term deposits	6,000	-
Proceeds from sale of property, plant and equipment	-	10,380
TOTAL INFLOWS FROM INVESTING ACTIVITIES	7,120	11,632
OUTFLOWS		
Investment of short-term deposits	(2,000)	(7,489)
Purchases of property, plant and equipment	(5,060)	(8,959)
Purchases of intangible assets	(2,128)	(1,245)
TOTAL OUTFLOWS FROM INVESTING ACTIVITIES	(9,188)	(17,693)
NET CASH USED IN INVESTING ACTIVITIES	(2,068)	(6,061)
CASH FLOWS FROM FINANCING ACTIVITIES		
OUTFLOWS		
Repayment of finance lease	(246)	(62)
Interest paid	(198)	(114)
Distributions to the racing codes	(70,926)	(72,065)
Gaming distributions to the racing industry	(1,823)	(1,377)
Gaming distribution to external bodies	(2,062)	(1,211)
TOTAL OUTFLOWS FROM FINANCING ACTIVITIES	(75,255)	(74,829)
NET CASH USED IN FINANCING ACTIVITIES	(75,255)	(74,829)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(545)	(4,415)
Cash and cash equivalents as at the beginning of the period	20,717	19,721
Foreign exchange loss on cash and cash equivalents	(107)	(154)
CASH AND CASH EQUIVALENTS AS AT THE END OF THE PERIOD	20,065	15,152

Notes to the Financial Statements

FOR THE SIX MONTHS ENDED JANUARY 2016

The purpose of these interim financial statements is to report on the financial performance for the six months ended 31 January 2016. 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 2015. Accordingly, it focusses on new actions, events and circumstances and does not duplicate information previously reported in NZRB's financial statements for the year ended 31 July 2015.

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.	INDEX	
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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.	Note 4 - Revenue	14
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Who is the NZRB and what was the basis of the financial statement preparation?

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. Customer betting accounts and betting vouchers offered are debt securities within the meaning of the Securities Act 1978 and NZRB is therefore an 'issuer' for the purposes of the Financial Reporting Act 1993. NZRB has not yet transitioned to the Financial Markets Conduct Act 2013 (FMCA) and in accordance with the FMCA transition provisions, will not be required to do so until later in 2016, as a result it is still required to comply with the Financial Reporting Act 1993. 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, the NZRB is designated a profit-oriented entity. The Group is a Tier-1 entity, under the XRB A1 Accounting Standards Framework (For-Profit Entities). 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 the NZRB's financial statements for the year ended 31 July 2015.

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 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 2016. 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 2015.

Notes to the Financial Statements (cont)

FOR THE SIX MONTHS ENDED 31 JANUARY 2016

Prior period comparatives

During the 2016 year, NZRB changed the presentation of the Condensed Statement of Profit and Loss and Other Comprehensive Income. The most significant change being reclassification of costs previously recorded as operating costs are now included in turnover related expenses. These costs include advertising and promotion expenses and race form publications. Where required, prior period comparatives have been restated to conform to the current period's presentation.

The presentation of the Condensed Statement of Cash Flows has also changed due to the reclassification of the distributions to racing codes, Gaming distributions to the racing industry and Gaming distributions to external bodies, from Operating Activities to Financing Activities.

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 2015.

	UNAUDITED GROUP			
	BETTING	GAMING	OTHER	TOTAL
	NZ\$000	NZ\$000	NZ\$000	NZ\$000
31 JANUARY 2016				
NET PROFIT BEFORE DISTRIBUTIONS	70,023	7,633	(2,737)	74,919
Less distributions	(72,063)	(6,465)	3,052	(75,476)
Less provision for undistributed Gaming net profit	-	(1,168)	-	(1,168)
NET PROFIT AFTER DISTRIBUTIONS	(2,040)	-	315	(1,725)

	UNAUDITED GROUP			
	BETTING	GAMING	OTHER	TOTAL
	NZ\$000	NZ\$000	NZ\$000	NZ\$000
31 JANUARY 2015				
NET PROFIT BEFORE DISTRIBUTIONS	73,581	5,954	(2,759)	76,776
Less distributions	(72,790)	(5,074)	3,022	(74,842)
Less provision for undistributed Gaming net profit	-	(880)	-	(880)
NET PROFIT AFTER DISTRIBUTIONS	791	0	263	1,054

Notes to the Financial Statements (cont)

FOR THE SIX MONTHS ENDED 31 JANUARY 2016

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

NZRB currently distributes almost all of its net profit to the racing industry and sporting community organisations. This section focusses 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 in the Condensed Statement of Profit or Loss and Other Comprehensive Income.

3. DISTRIBUTIONS

	UNAUDITED			
	BETTING	GAMING	UNDISTRIBUTED GAMING NET PROFIT FROM PRIOR YEAR	TOTAL
	NZ\$000	NZ\$000	NZ\$000	NZ\$000
31 JANUARY 2016				
Distributions to the racing industry				
Code funding	72,063	-	-	72,063
RIU	-	3,052	-	3,052
Racing Laboratory Services	-	746	133	879
JCA	-	542	108	650
Other application of funds from Gaming operations				
Events, Marketing and Logistics	-	234	-	234
Race form publications	-	1,012	-	1,012
TOTAL DISTRIBUTIONS TO THE RACING INDUSTRY	72,063	5,586	241	77,890
Distributions to sporting community organisations				
Sports authorised purposes (paid and payable)	-	879	60	939
TOTAL DISTRIBUTIONS TO SPORTING COMMUNITY ORGANISATIONS	-	879	60	939
Reversal of prior period provision for undistributed net profit	-	-	(301)	(301)
TOTAL DISTRIBUTIONS FROM NZRB PARENT	72,063	6,465	-	78,528
Distributions to RIU - eliminated on consolidation	-	(3,052)	-	(3,052)
TOTAL DISTRIBUTIONS FROM GROUP	72,063	3,413	-	75,476

Notes to the Financial Statements (cont)

FOR THE SIX MONTHS ENDED 31 JANUARY 2016

	UNAUDITED			TOTAL NZ\$000
	BETTING NZ\$000	GAMING NZ\$000	UNDISTRIBUTED GAMING NET PROFIT FROM PRIOR YEAR NZ\$000	
31 JANUARY 2015				
Distributions to the racing industry				
Code funding	72,790	-	-	72,790
RIU	-	2,510	512	3,022
Racing Laboratory Services	-	564	238	802
JCA	-	500	108	608
Other distributions to racing industry from Gaming operations	-	909	-	909
TOTAL DISTRIBUTIONS TO THE RACING INDUSTRY	72,790	4,483	858	78,131
Distributions to sporting community organisations				
Sports authorised purposes (paid and payable)	-	591	214	805
TOTAL DISTRIBUTIONS TO SPORTING COMMUNITY ORGANISATIONS	-	591	214	805
Reversal of prior period provision for undistributed net profit	-	-	(1,072)	(1,072)
TOTAL DISTRIBUTIONS FROM NZRB PARENT	72,790	5,074	-	77,864
Distributions to RIU - eliminated on consolidation	-	(3,022)	-	(3,022)
TOTAL DISTRIBUTIONS FROM GROUP	72,790	2,052	-	74,842

Notes to the Financial Statements (cont)

FOR THE SIX MONTHS ENDED 31 JANUARY 2016

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

4. REVENUE

	UNAUDITED	
	31 JANUARY 2016 Consolidated NZ\$000	31 JANUARY 2015 Consolidated NZ\$000
4a. BETTING AND GAMING TURNOVER (including GST)		
Betting turnover - racing totalisator	590,132	650,651
Betting turnover - racing fixed odds	320,147	231,669
Total betting turnover - racing	910,279	882,320
Betting turnover - sports totalisator	370	512
Betting turnover - sports fixed odds	276,678	180,366
Total betting turnover - sports	277,048	180,878
TOTAL BETTING TURNOVER	1,187,327	1,063,198
Gaming turnover	194,653	154,135
TOTAL BETTING AND GAMING TURNOVER	1,381,980	1,217,333
4b. NET BETTING REVENUE		
Total betting turnover	1,187,327	1,063,198
Less: dividends payable	(1,015,144)	(895,790)
Gross betting revenue	172,183	167,408
Betting duty	(6,769)	(6,584)
GST	(23,143)	(22,518)
Problem Gambling Levy	(1,033)	(1,007)
NET BETTING REVENUE	141,238	137,299
4c. NET GAMING REVENUE		
Gaming turnover	194,653	154,135
Less: dividends paid	(177,492)	(140,521)
Gross gaming revenue	17,161	13,614
Gaming machine duty	(3,432)	(2,723)
GST	(2,238)	(1,776)
Problem Gambling Levy	(225)	(178)
NET GAMING REVENUE	11,266	8,937

Notes to the Financial Statements (cont)

FOR THE SIX MONTHS ENDED 31 JANUARY 2016

5. OTHER REVENUE

	UNAUDITED	
	31 JANUARY 2016 Consolidated NZ\$000	31 JANUARY 2015 Consolidated NZ\$000
(Loss) / Gain on disposal of property, plant and equipment	(5)	4,930
Interest	961	1,253
Merchant	1,158	959
NZ racing shown overseas	11,201	10,696
Racing services	7,240	7,384
Revenue from broadcasting within New Zealand	404	479
Other revenue	3,016	2,600
TOTAL OTHER REVENUE	23,975	28,301

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

6. TURNOVER RELATED EXPENSES

	UNAUDITED	
	31 JANUARY 2016 Consolidated NZ\$000	31 JANUARY 2015 Consolidated NZ\$000
Advertising and promotions	3,917	4,767
National sporting organisations	3,824	2,688
Overseas racing rights	14,357	13,709
Retail fees	8,395	8,072
Race form publications	1,954	1,742
Less race form publications recovered from Gaming	(1,012)	(909)
Other turnover related expenses	2,572	3,657
TOTAL TURNOVER RELATED EXPENSES	34,007	33,726

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 note 3.

7. PREMISES AND EQUIPMENT EXPENSES

	UNAUDITED	
	31 JANUARY 2016 Consolidated NZ\$000	31 JANUARY 2015 Consolidated NZ\$000
Rent	3,619	3,923
Repairs and maintenance	1,361	1,311
Other premises and equipment expenses	2,508	2,434
TOTAL PREMISES AND EQUIPMENT EXPENSES	7,488	7,668

Notes to the Financial Statements (cont)

FOR THE SIX MONTHS ENDED 31 JANUARY 2016

8. STAFF EXPENSES

	UNAUDITED	
	31 JANUARY 2016 Consolidated NZ\$000	31 JANUARY 2015 Consolidated NZ\$000
Salaries and wages (including contractors)	30,007	29,559
Termination payments	198	50
Other staff expenses	2,236	2,560
TOTAL STAFF EXPENSES	32,441	32,169

9. OTHER OPERATING EXPENSES

	UNAUDITED	
	31 JANUARY 2016 Consolidated NZ\$000	31 JANUARY 2015 Consolidated NZ\$000
Auditors remuneration	78	88
Board members	195	195
Consultancy	1,154	774
Impairment	21	26
Interest	198	182
Legal	175	127
Merchant	1,781	1,382
Printing and stationery	237	268
RIU swabbing costs	568	626
Travel and accommodation	1,546	1,676
Other operating expenses	1,100	958
Less EML costs recovered from Gaming	(234)	-
TOTAL OTHER OPERATING EXPENSES	6,819	6,302

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 note 3.

10. RELATED PARTIES

There have been no significant changes to the related parties or transactions with related parties since 31 July 2015.

Notes to the Financial Statements (cont)

FOR THE SIX MONTHS ENDED 31 JANUARY 2016

Other

11. OTHER FINANCIAL ASSETS

	UNAUDITED 31 JANUARY 2016 Consolidated NZ\$000	AUDITED 31 JANUARY 2015 Consolidated NZ\$000
Loans to Racing Clubs - RACE Inc	2,649	2,609
Short-term deposits - Betting Accounts and Vouchers Trust	22,000	20,000
Short-term deposits	5,000	11,000
Other	165	165
TOTAL OTHER FINANCIAL ASSETS	29,814	33,774
Disclosed as:		
Current	27,000	31,088
Non-current	2,814	2,686
TOTAL OTHER FINANCIAL ASSETS	29,814	33,774

Betting Accounts and Betting Vouchers Trust short-term deposits are funds held in trust to cover the balances of the customer betting accounts deposits and vouchers liability. The short-term deposit of \$22.0 million and \$1.0 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 \$22.2 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 account deposits and vouchers liability.

12. SUBSEQUENT EVENTS

There have been no subsequent events that would have a material impact on these financial statements.



Independent Review Report

to the Board Members of the New Zealand Racing Board

Report on the Interim Financial Statements

We have reviewed the accompanying interim financial statements of the New Zealand Racing Board and the entities it controlled (together "the Group") at 31 January 2016 on pages 6 to 17, which comprise the condensed consolidated statement of financial position as at 31 January 2016, and the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the year ended on that date, and selected explanatory notes.

Board Members' Responsibility for the Interim Financial Statements

The Board Members are responsible on behalf of the Group for the preparation and presentation of these interim financial statements in accordance with New Zealand Equivalent to International Accounting Standard 34 Interim Financial Reporting (NZ IAS 34) and for such internal controls as the Board Members determine are necessary to enable the preparation of interim 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 interim 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 interim financial statements, taken as a whole, are not prepared in all material respects, in accordance with NZ 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 interim 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 interim financial statements of the Group are not prepared, in all material respects, in accordance with NZ IAS 34.

Restriction on Use of Our Report

This report is made solely to the Board Members of the 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.

A stylized, handwritten-style signature of 'PricewaterhouseCoopers' in a dark grey or black ink.

Chartered Accountants
29 March 2016

Wellington