



ANNUAL REPORT

2014



2014

HAS BEEN A YEAR OF BOTH CHALLENGES
AND RECORD BREAKING SUCCESSES FOR
THE NZ RACING BOARD

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2014 HIGHLIGHTS

RECORD BREAKING TURNOVER

For the first time in the organisation's history the NZ Racing Board exceeded the **\$2 billion** turnover mark. This was underpinned by solid growth in both Betting and Gaming and came off the back of another record breaking Melbourne Cup, and a highly successful Football World Cup tournament.

BROADCASTING

TAB Trackside transitioned exclusively to SKY on 14 April 2014, paving the way towards a revamped and refreshed dual channel offering and enabling more than **5,000** former 'no TV' races to be broadcast per year.

IT DEVELOPMENT

Crucial investment in IT infrastructure has set the basis for future development of digital products and channels including the TAB Mobile App.



GAMING

The NZ Racing Board distributed **\$2.3 million** to community sporting organisations from its Gaming proceeds. This was enabled by growth in Gaming and the opening of three new Gaming sites in 2013/14.

TAB WATCH & BET RACING



TAB Watch & Bet Racing launched in December 2013, providing a live stream service to watch TAB Trackside directly from the TAB website and place bets at the same time.

RECORD BREAKING FOOTBALL WORLD CUP 2014

Punters spent **\$32.3 million** during **Football World Cup 2014**, making it the TAB's biggest ever betting event – outstripping the \$30.2 million wagered on the 2011 Rugby World Cup. The event attracted **10,440 new customers**.

BETTING TURNOVER



6.8%

Total year on year betting turnover increased by **6.8%**. Turnover from domestic customers is running over three times higher than the compound average of the last four years.

GROWTH IN ACTIVE CUSTOMERS AND ACTIVE CUSTOMER ACCOUNTS

Active customers (customers who have bet in the last seven days) grew 8% in 2013/14, comparing very favourably with the five year Compound Annual Growth Rate of -12%. Active account numbers increased by 16% over the same period.

ABOUT THE NZ RACING BOARD

The NZ Racing Board is a statutory body established by the Racing Act 2003. The NZ Racing Board's primary purpose is to promote and enhance the racing industry, run a profitable betting business and generate long term profit for the benefit of the racing industry.

The NZ Racing Board operates the country's official racing and sports betting agency, the TAB. The TAB is a major entertainment business with more than 154,000 active TAB account-holders and a retail network consisting of more than 675 outlets. Every bet placed with the TAB makes an integral contribution to the growth of racing and sport in New Zealand and the livelihoods of thousands of Kiwis involved in the racing and sport sectors.

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, and first off-course totalisator service in the world.

The NZ Racing Board supports betting on more than 68,000 domestic and imported thoroughbred, harness and greyhound races each season, as well as on approximately 29,000 domestic and international sporting events. It has betting agreements with 33 New Zealand national sporting organisations.

The NZ Racing Board has also held a Class 4 Operator's Licence since 2011. Currently 33 of our around 675 TAB retail

network sites host gaming machines controlled by NZ Racing Board. It is estimated the NZ Racing Board operates around 3% of the total number of Class 4 Venues in New Zealand and has around 2% of the total number of gaming machines. Net proceeds are split with 80% funding racing Authorised Purposes (e.g. the majority is used to fund integrity measures such as the Racing Integrity Unit, NZ Racing Laboratory Services and Judicial Control Authority), and up to 20% distributed to community sports.

The NZ Racing Board directly employs around 820 personnel (full-time, part-time and casual), with the majority of these people involved in the various facets that make up the TAB operation – scheduling daily racing for customers in New Zealand, selling racing and sports bets through the retail network, online and telephony channels, or the broadcast of racing on TAB Trackside 1, TAB Trackside 2, and TAB Trackside Radio.

After operating costs and expenses, the NZ Racing Board surplus is available for distribution to the three New Zealand Racing Codes – NZ Thoroughbred Racing, Harness Racing NZ and Greyhound Racing NZ – in accordance with an agreed funding model.

The NZ Racing Board makes a significant contribution to the development of sports in New Zealand through the commission it pays to national sporting bodies for sports on which it takes bets. In the 2013/14 year, the NZ Racing Board distributed a total of \$5.0 million to national sporting organisations across the country.



NZ THOROUGHBRED RACING HORSE OF THE YEAR 2013/14 *Dundee*

PHOTO: Steve Hart Photographics

STATEMENT FROM THE BOARD – 2014

THE NZ RACING BOARD IS NOW ONE YEAR INTO ITS FIVE YEAR STRATEGY. IN RACING TERMS YOU COULD SAY THAT WE ARE AT THE FIRST TURN, OR THAT THE 'BUNNY'S ON THE RUN'.

It hasn't been the easiest of starts, and it may yet be a rough race but we are well placed to make the winner's circle or to catch that lure.

2013/14 RESULTS

The 2013/14 year has been filled with both challenges and record breaking successes. We have again achieved record turnover results, surpassing the \$2 billion mark for the first time in our organisation's history. However, our results have been significantly impacted by the rising NZD/AUD exchange rate and escalating costs.

Our Net Profit before distributions for 2013/14 was \$137.0 million, a marginal increase on our 2012/13 result, but one that did not meet budget.

Total distributions for the NZ Racing Board Group across racing and sport increased by \$2.5 million to \$137.4 million. This resulted in a distribution to our three racing codes, NZ Thoroughbred Racing, Harness Racing NZ and Greyhound Racing NZ, of \$134.1 million.

COST VIGILANCE

This year our Net Profit result was impacted by cost overruns across our business critical key initiatives. In some instances these key initiatives cost more and took longer to execute than initially planned. However, they also delivered some good wins that will maintain and grow our business in the future including:

- TAB Watch & Bet Racing – live race streaming since December 2013.
- Three new gaming sites.
- Significant investment in underlying IT infrastructure.
- TAB Trackside transitioned exclusively to SKY.

Moving into 2014/15, the Board is committed to applying increased discipline and rigour to key initiatives. Put simply, we must be cost vigilant and unwind cost from the business.

ANOTHER RECORD BREAKING YEAR

Despite the challenges, the NZ Racing Board and the powerhouse that is the TAB also had a record breaking year and one that should be celebrated. Both the 2013 Melbourne Cup and the 2014 Football World Cup generated record betting revenue to help contribute to the overall revenue record for the year. We are also experiencing on-going growth in customer numbers and active customer accounts, with active customer accounts up 16% on last year.

This tells us that our core business is very strong and indeed that we are in growth.

GOOD NEWS ON 'LEAKAGE'

Pre-election 2014, our Racing Minister Nathan Guy publicly committed to tackling the issue of offshore betting. We estimate that New Zealanders bet up to \$300 million per year with overseas agencies that isn't subject to levies or taxes. These agencies are using our racing product without contributing to the industry, they do not pay gambling levies, totalisator duty or GST, or have measures in place to manage problem gambling or corruption that meet New Zealand standards. We look forward to the Government taking action in this space and modernising our regulatory environment to the benefit of the racing and sports industries.

THE MARKET

As outlined, the operating performance of the TAB has been outstanding in 2014, especially considering there is a market trend towards lower margin fixed odds betting, a decline in domestic racing share of overall turnover and a younger customer base with a voracious appetite for digital channels. This is where the NZ Racing Board must play a critical role in continuing to invest in digital products and channels to cater for the needs of our customers. Our key initiative areas of Re-architecting IT and Digitising the Business will continue to be prioritised in order to protect and grow our business.

OUR INDUSTRY

Continuing to collaborate with our industry for the greater benefit of our industry has been a key focus for the Board and our organisation this year. This is not always easy, but it's imperative. Our challenge and goal is to get better at this every year, especially by working with the Codes and harnessing their extensive industry knowledge and expertise.

OUR STRATEGY

One year in, the Board remains committed to our five year strategy and strategic goals. We believe the goal areas are the right ones for the business to focus on: surplus available for distribution, stakes growth, owner returns, turnover from new markets and products, and our operational cost to income ratio.

Our 2013/14 results and the fact that we missed budget have, however, made us reflect on our goal targets and timeframes. The reality is we are coming off a lower base and we need to be realistic about what this means for the next four years. This is about putting the NZ Racing Board on a more realistic future pathway as laid out in our 2015-17 Statement of Intent.

2014/15 AND BEYOND

As we enter into the second year of our strategy, we are realistic about the 'rough track' but we are also confident of a strong finish. This will take commitment to diversification and investment – particularly in digital channels – as well as dedication to keeping costs 'in-hand'.

There is no reason the NZ Racing Board can't have the 'Look of Eagles' and be more than a champion in the making.

Glenda Hughes
Chair
NZ Racing Board



HARNESS RACING NZ HORSE OF THE YEAR 2013/14 *Terror To Love*

INDUSTRY AND BUSINESS UPDATE

RACING INDUSTRY

The New Zealand racing industry is facing a number of challenges:

- Over a million New Zealanders used to attend races 10 years ago, this annual figure is now closer to 800,000.
- Direct and indirect jobs provided by the industry have dropped 9% between 2004 and 2010 (18,600 to 16,900).
- Despite declining attendance and higher costs to maintain, there has been no rationalisation of race courses.
- New Zealand has almost double the level of racecourses per capita compared to high performing jurisdictions like Ireland.
- The current rate of incremental distribution and stakes money increases will not address the issues the industry faces.

Increased collaboration between the NZ Racing Board, Codes and wider industry is critical to address these challenges.

The NZ Racing Board and the Codes have had constructive engagement throughout 2013/14 via regular meetings and in particular during the formulation of the Statement of Intent and respective business plans.

Moving into 2014/15, the NZ Racing Board will seek to work more closely with the industry. Major initiatives that the NZ Racing Board and the Codes will need to finalise in 2014/15 include:

- Renegotiation of key international agreements;
- Finalisation of the 2015/16 race calendar to deliver improved betting income for the industry;
- Finalisation of a new Code funding model;
- Club accounts' review;
- Development of the industry fact base; and
- 2015/16 business planning.

Code CEOs will also be involved in discussions on the scoping and feasibility of the NZ Racing Board strategic initiatives through the year.

EXTERNAL MARKET TRENDS

The NZ Racing Board's operating environment has undergone significant change in the past 12-24 months. International corporate bookmakers have invested heavily in Australia as they seek to penetrate the Australian betting market.

The corporate bookmakers invested in Australia at a time when the incumbent, land-based operators were seen as not meeting the market in terms of their customer offerings. This has now changed with incumbent operators having invested heavily in technology and digital and customer relationship management initiatives to ensure they are fit to compete.

The New Zealand market is not immune and it is expected that Australian operators will target New Zealand customers more aggressively as they seek to recoup their investment.

The domestic gambling market remains relatively static but Lotto continues to gain market share. Lotto's performance is underpinned by higher jackpots, product innovation and investment in their retail network. This illustrates the need to continue to invest in these areas to remain competitive.

BUSINESS UPDATE: THE CHANGING SHAPE OF THE NZ RACING BOARD'S BUSINESS

Competitive pressures, changing customer preferences and on-going digitisation of the marketplace have impacted the NZ Racing Board performance in recent years and will continue to present challenges.

While the NZ Racing Board has achieved record turnover results, income and profitability have been impacted by changing margin mix and higher costs.

A long term decline in core, higher margin tote product has seen margins continue to slip. The market has been shifting towards lower margin, fixed odds products, both in racing and sports betting. The demand for New Zealand racing continues to decline with import racing growing at a much higher rate.

Key market trends:

- *High margin, domestic tote continues* to decline while import tote grows as a percentage of overall tote business. For the first time in 2014/15, import's share of racing tote (50.3%) is expected to be greater than domestic (49.7%).
- *Racing fixed odds betting (FOB) share of race betting is now 22%* (versus 7% in 2009). Growth in FOB underlines the need to invest in this area to manage margins and risk.
- *Racing is still core but sports betting continues to grow*. While sports betting is low margin it provides a channel for new customer acquisition.
- *Strong growth in digital turnover*. Digital turnover has grown 26%, but competing in the digital marketplace requires significant investment in IT infrastructure and customer-facing digital offerings.
- *Retail's share of turnover continues to decline*. However, retail remains a dominant channel, driving 42% of turnover. Refurbishment of the TAB retail network will require future prioritisation.

The table below provides detailed five year trends across key business metrics.

KEY BUSINESS METRICS	FY10	FY11	FY12	FY13	FY14
Racing % total betting turnover	87%	88%	85%	86%	83%
Sports % total betting turnover	13%	12%	15%	14%	17%
Tote % total betting turnover	80%	78%	73%	71%	65%
FOB % total betting turnover	20%	22%	27%	29%	35%
Domestic racing share of tote turnover	61%	58%	55%	51%	50%
Import share of tote turnover	39%	42%	45%	49%	50%
Cash share of total betting turnover	57%	55%	54%	49%	45%
Account share of total betting turnover	43%	45%	46%	51%	55%
Retail share of total betting turnover	52%	51%	50%	46%	42%
Digital share of total betting turnover	22%	25%	29%	36%	43%
Non retail/digital share of total betting turnover	26%	24%	21%	18%	15%
Total betting turnover	\$1,582m	\$1,532m	\$1,620m	\$1,717m	\$1,833m
Net betting revenue margin	14.8%	14.7%	14.4%	14.2%	13.9%

CUSTOMERS

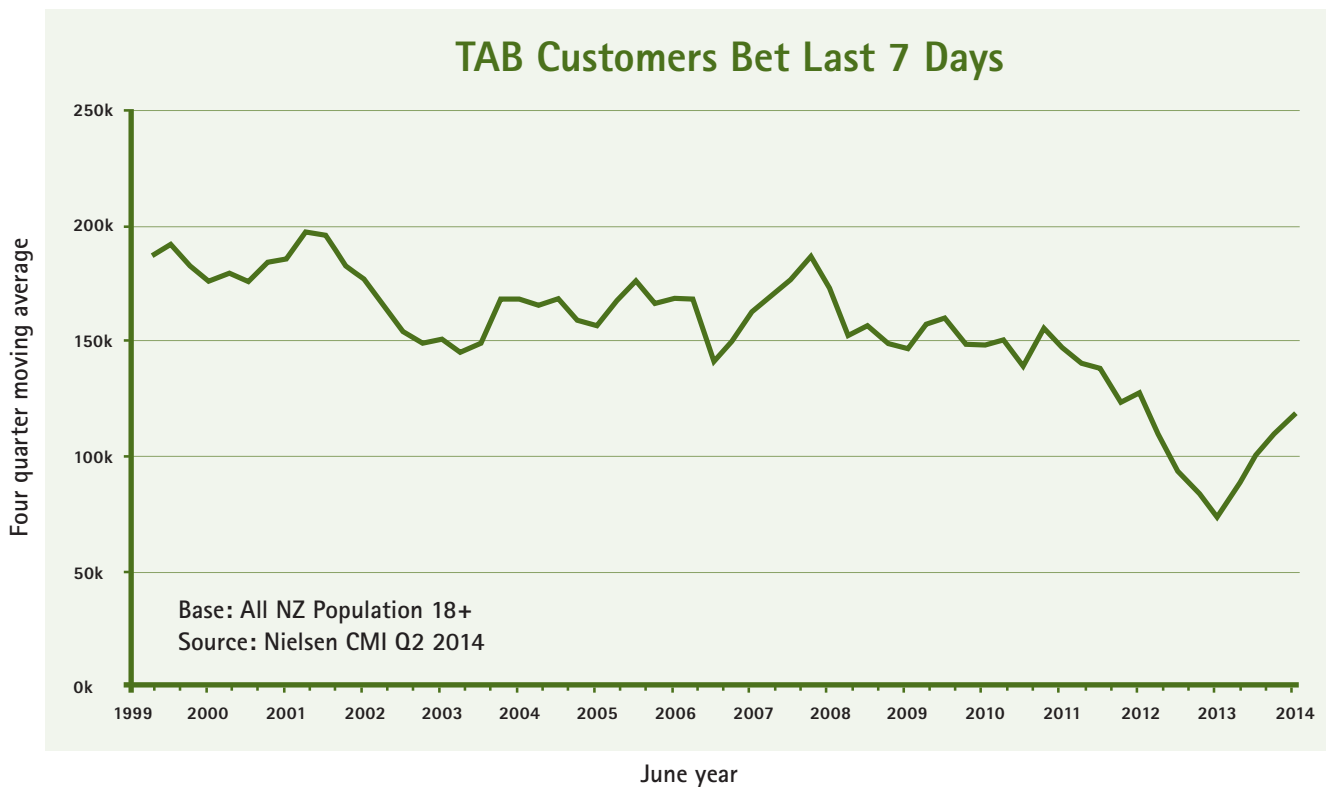
The NZ Racing Board's five year strategy has a portfolio of 19 key initiatives. Customer acquisition, retention and growth remain a priority across most of these initiatives.

The NZ Racing Board needs to address some key long term customer trends if it is to deliver sustained turnover growth in future years. In recent times, the NZ Racing Board has not been able to grow its share of the NZ gambling market and has seen a steady decline in participation levels both in betting and on-course race attendance.

The focus for 2014/15 has been to deliver a range of strategic and operational initiatives to achieve a turnaround in some core customer metrics. Some significant gains against key customer metrics were achieved in 2013/14.

- The number of people who bet regularly (in the past seven days) had fallen from 177,000 in 2007 to 93,000 in 2012. In 2013/14, this grew by 7.7% to 101,000.
- Total year on year betting turnover increased by 6.8%.
- TAB account customer metrics recorded solid growth in 2013/14, supported by the Football World Cup in July:
 - o There were 154,163 unique TAB account bettors last season (+15.8% increase year on year), average spend per account excluding VIP activity was \$1,083 (+12.8%)
 - o There were 43,202 first time TAB account bettors last season (+60%)

The chart below shows the turnaround achieved in one of the core customer measures.



While the growth in customer metrics recorded in 2013/14 provides a solid platform for continued growth, adaptation to the changing market and customer preferences is still required. Some key considerations include:

- Reliance on traditional customer base and requirements of emerging younger customer base. New markets will continue to be difficult to penetrate as potential customers demand a far superior experience (product, service, retail, online proposition).
- Digital and internet growth remains exceptionally high, investment will need to be prioritised to support this.

Trends to note:

- 86% of Kiwis use the internet weekly. An average Kiwi spends two hours per day online.
- Tablet uptake - 65% more Kiwis now own a tablet compared to 12 months ago. Thirty-two per cent of TAB customers own a tablet, versus 13% a year ago.
- Smartphone ownership growth - 45% of TAB customers own a smartphone, versus 27% a year ago.

STRATEGY UPDATE

2013/14 represented year one of the NZ Racing Board's strategic roadmap. The focus was to execute seven key initiatives alongside a series of core business key initiatives (KIs). The KIs prioritised were the right ones to protect and grow the business. However, they have cost more, taken longer to execute and are not yet delivering the full benefits planned.

Seven KIs were prioritised for implementation last season.

- o **Re-architect IT:** The first iteration of core and common services was built and delivered along with additional (TAB Mobile App specific) services.
- o **Digitise the business:** Live race streaming (TAB Watch & Bet Racing) went live in December 2013. Development work for the TAB Mobile App with sports betting was also completed.
- o **Broadcasting:** Platform (SKY), studio (location) and content (dual channel model) strategies were approved. TAB Trackside transitioned exclusively to SKY on 14 April 2014 and the dual channel model was launched on 1 August 2014. Formal migration from Avalon to NZ Live took place on 1 October 2014.
- o **Product innovation:** Triple Trio was launched to the market on 18 January 2014. Turnover has been below expectations but the promotional activity has generated interest and growth in turnover in other product lines.
- o **Strategic retail growth (including gaming):** Three new sites (Trax Bar, The Exchange and Gisborne) commenced trading in the year but overall gaming turnover was impacted by the closure of the prime Courtenay Place site following the August 2013 earthquake. This site was re-opened in late September 2014 with benefits expected for the 2014/15 financial year.
- o **VIP:** The scope of this initiative included a number of work streams. While the improved speed of bet acceptance has been completed, there was a delay with the acquisition of new customers and this impacted forecast benefits for 2013/14.
- o **Government relations:** The focus has been researching workable and practical solutions to ensure legislation is relevant to the current environment in which we operate. Work continues on talking to policy makers to get action on tackling the key issue of offshore betting.

The Board and Management of the NZ Racing Board reviewed the five year strategy at the end of 2013/14 and reaffirmed their commitment to the strategy and its five strategic goals.

However, the business is now coming off a lower base than initially forecast due to 2013/14 performance. Given this, the targets and timeframes for each of the five goals will be reset to incorporate 2013/2014 results. This process is currently underway.

In the meantime, the Board has approved a set of 10 key initiatives to be the focus for 2014/15, some of which are carried over from 2013/14. The initiatives are categorised into two groups; 'business critical' and 'investing for tomorrow'.

- 'Business critical' initiatives are either critical to build a solid business foundation or they need to be implemented due to the operating environment.
- Initiatives grouped under the 'investing for tomorrow' banner are potentially highly capital intensive, multi-year projects. They will be scoped with feasibility studies completed in 2014/15 so that a decision to proceed can be made.

Business critical initiatives are:

- International wagering agreements.
- Digitise the Business - future TAB Mobile App releases, platform development for TAB Watch & Bet racing; assessment of future functionality.
- Re-architect IT - on-going work streams to improve technology infrastructure.
- Broadcasting - options and assessment for HD capable outside broadcast vans to replace the current obsolete fleet.
- Right size and reformat the network - implement tactical quick wins as a result of analysis undertaken to deliver improved return on investment.
- Product innovation - given the growth of fixed odds betting, there is a need to invest in an automated fixed odds betting platform to better manage margins and mitigate risks.

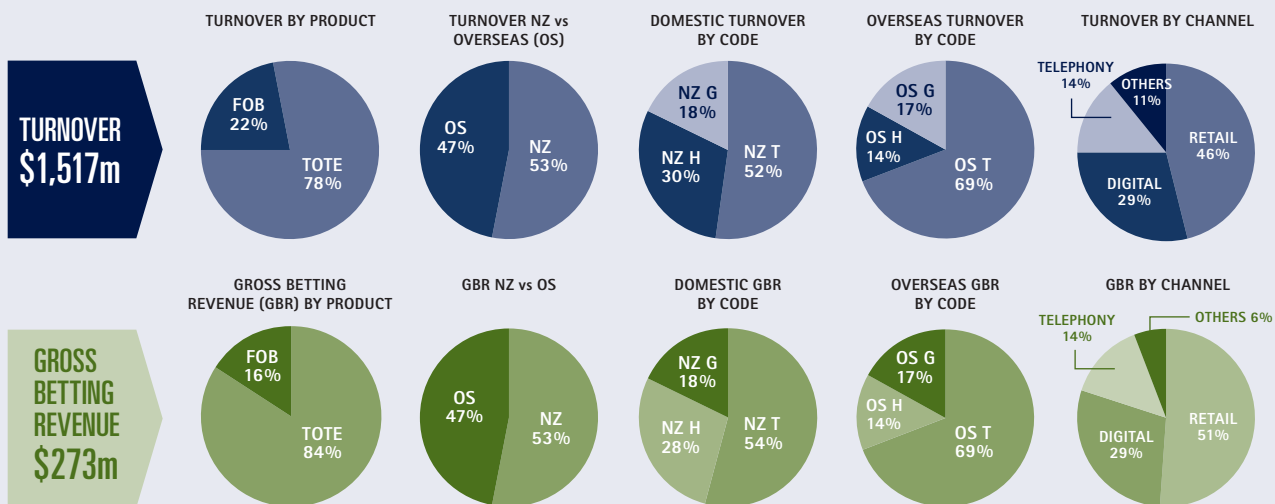
Investing for tomorrow initiatives:

- Government relations - continue work with the Government on offshore betting policy.
- Customer relationship management (CRM) - targeted offerings and communications to customers, and improved offer functionality in 2014/15. Future solution for the way the NZ Racing Board interacts and transacts with the Codes.
- Cost recovery model / commercial and economic pricing initiative (CEPI).
- Strategic retail growth (including gaming) - targeted expansion of gaming where the required return on investment hurdle rates are met.

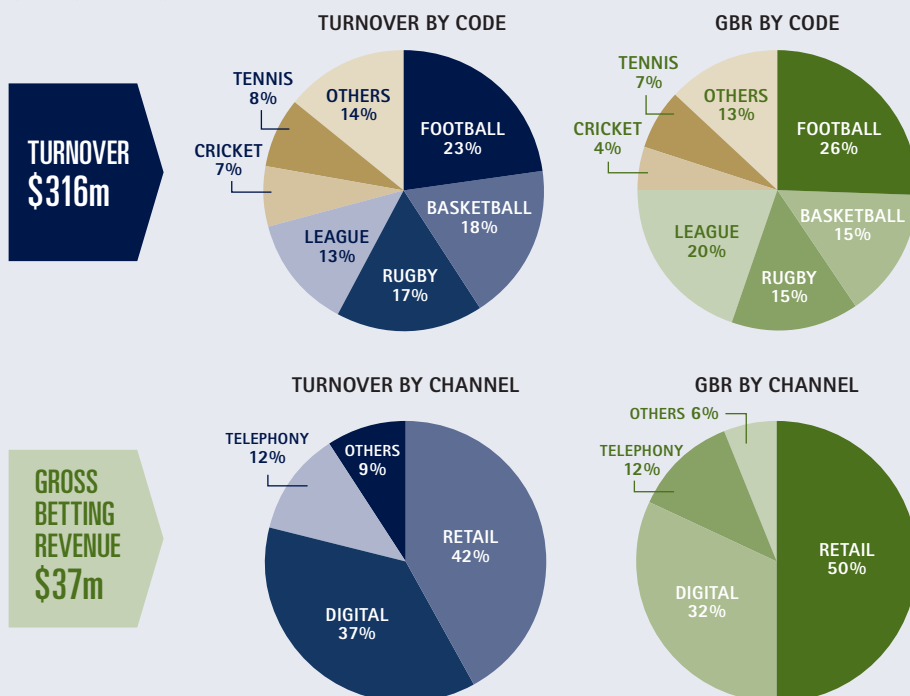
DISTRIBUTIONS FLOWCHART

BETTING AND GAMING ACTIVITY

RACING



SPORTS



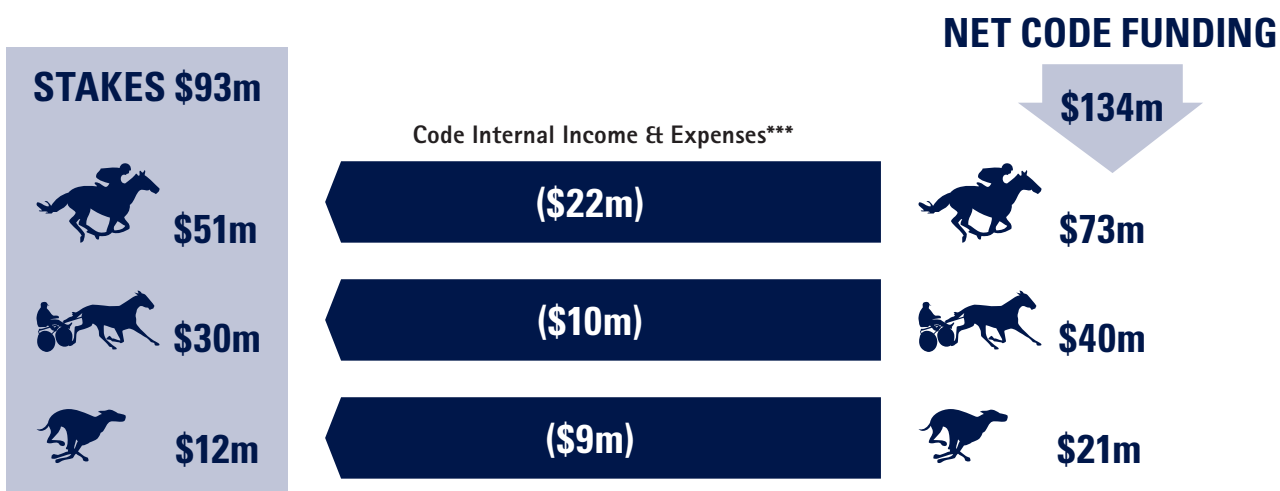
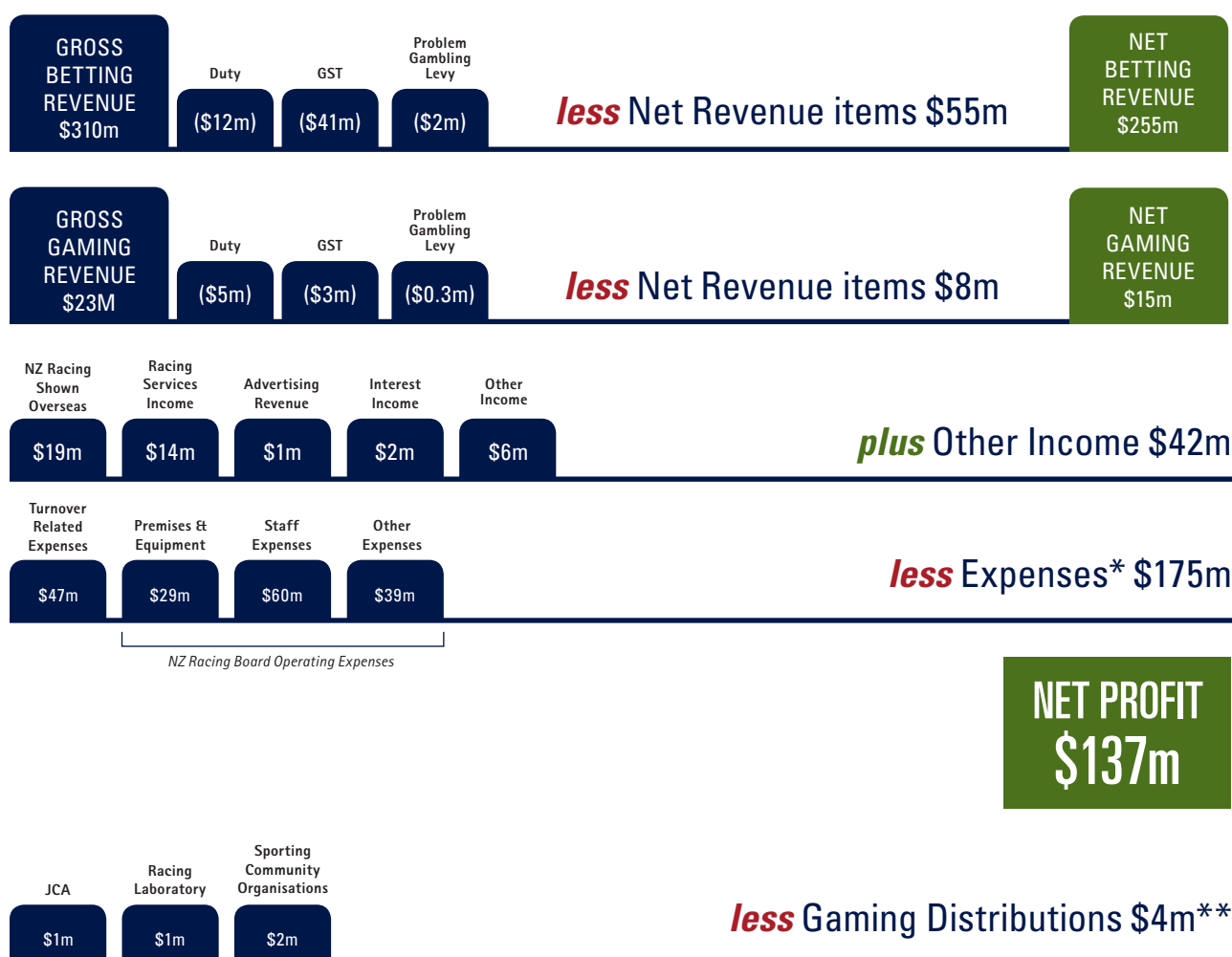
GAMING

TURNOVER \$256m

GROSS GAMING REVENUE \$23m

TOTAL TURNOVER \$2.1b

TOTAL GROSS BETTING AND GAMING REVENUE \$333m



Note: \$134 million includes \$1 million from NZ Racing Board reserves.

* Expenses including RIU costs

** Distributions of \$5.7m to RIU have been eliminated on consolidation

*** Includes Code Admin, Club Raceday Expenses, Raceday Income and Code Other Income and Code Other Expenses

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 communications and media strategy company, Glenda Hughes Communication, which specialises in strategic management, public change programmes, government relations, media liaison, marketing, promotions and launches. Glenda 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.

MAURO BARSÌ

GREYHOUND CODE NOMINEE | LLM(HONS), BA

Mauro Barsi heads one of the major business units at the Employers and Manufacturers Association (EMA) where he has in recent years been leading a significant business transformation project. He is also involved in helping shape the EMA's Employment Law activity, lobbying and policy work.

Mauro is an experienced business management professional with specialised skills in corporate restructuring and litigation. He has successfully led teams across various industries including events, the public sector, employment relations and corporate litigation. He has also managed a number of successful business transactions and helped shape the strategy for a number of successful New Zealand entities.

BARRY BROWN

INDEPENDENT MEMBER | LLB (HONS)

Barry Brown is one of New Zealand's leading corporate lawyers and has advised on many of the country's biggest deals over the past 30 years. Barry joined Chapman Tripp in 1972 and became a partner in 1980. Barry is a Senior Partner in Chapman Tripp's corporate and commercial team, which advises New Zealand and multi-national clients on mergers and acquisitions, as well as securities law. During his time with Chapman Tripp, Barry has been Chairman of the Board and Managing Partner of the firm's Wellington office. Barry is a member of the Auditor Regulation Advisory Group of the New Zealand Institute of Chartered Accountants and a former member of the New Zealand Stock Exchange's Market Surveillance Panel. Barry holds a law degree with honours from Victoria University of Wellington.

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 Croon 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.

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

ALISTAIR RYAN

INDEPENDENT MEMBER | MCOM, CA

Alistair Ryan is a chartered accountant with extensive experience as a director of both public and private Australasian companies. He was a founding executive member of SKYCITY Entertainment Group and served as a director of various SKYCITY subsidiaries and associated companies. In addition to his directorship with the NZ Racing Board, Alistair sits on a various other boards including Metlifecare, Moa Group, Christchurch Casino and Lewis Road Creamery, he is a member of the Auditor Regulation Advisory Group and chairman of listed investment companies Kingfish, Barramundi and Marlin Global. Alistair has a Master of Commerce (Hons) in Accounting and is a member of the Institute of Chartered Accountants, INFENZ, the Institute of Directors and the Institute of Chartered Secretaries.

**GLENDA HUGHES****MAURO BARSÌ****BARRY BROWN****GRAHAM COONEY****ROD CROON****GREG MCCARTHY****ALISTAIR RYAN**

BOARD AND INTERESTS REGISTER

Board Members, as at 31 July 2014

GLENDA HUGHES

Racing Integrity Unit, Chair
Clubs New Zealand Incorporated, Client of Glenda Hughes Communications

MAURO BARSÌ

Greyhound Racing New Zealand, Board Member
EMA, GM Enterprises and Strategy / Corporate Legal Counsel

BARRY BROWN

Ironsand Forests Limited, Director
Chapman Tripp, Partner
Wellington Racing Club, Member
Family members who are involved in the racing industry

GRAHAM COONEY

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

ROD CROON

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

LIZ DAWSON (DEPARTING MEMBERS, AS AT 31 JULY 2014)

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

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
Rangatira Forests Limited, Director and Shareholder
Spring Creek Estate Limited, Director
Sutton McCarthy Limited, Director and Shareholder

ALISTAIR RYAN

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



THE RACING ACT 2003

SETS OUT THE AUTHORITY, RESPONSIBILITIES,
MEMBERSHIP AND OPERATION OF THE NZ
RACING BOARD.

GOVERNANCE STATEMENT

The Racing Act 2003 sets out the authority, responsibilities, membership and operation of the NZ Racing Board.

BOARD STRUCTURE AND COMPOSITION

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

- An independent Chairperson;
- Three members 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;
- 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 2013/14 racing season the full Board consisted of:

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

On 31 October 2013, Liz Dawson resigned as Independent Director of the NZ Racing Board and Barry Brown was appointed as an Independent Director from 10 March 2014.

As at 31 July 2014, the Executive Racing Board Leadership Team comprised:

- Stewart McRobie, Chief Executive Officer (Acting) and Chief Financial Officer
- Monique Cairns, Executive General Manager Strategy and Transformation
- Glenn Patrick, Executive General Manager TAB
- Emma Scott, Executive General Manager People, Culture and Talent
- Colin Philp, Chief Information Officer

BOARD RESPONSIBILITIES

The Board meets regularly. The Chief Executive Officer, whose responsibility is the day-to-day operations of the NZ Racing Board, also attends all Board meetings.

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 recognised industry organisations, the Statement of Intent is tabled by the Minister in Parliament.

BOARD PROCESSES

The Board met fourteen times during the year to 31 July 2014. Every meeting is subject to a formal agenda and reporting procedures. Agendas are prepared by the Board's Secretary, in conjunction with the Chief Executive Officer and the Chair.

The NZ Racing Board maintains an Interests Register in which the interests of its members are recorded. Board Members are expected to manage any conflicts of interest in accordance with the provisions of the Racing Act 2003.

BOARD COMMITTEES

The Board formally constituted four committees in 2013/14: the Dates Committee, the Audit and Risk Committee, the Compensation and Development Committee and the Net Proceeds Committee.

These committees support the Board by considering relevant issues at a detailed level and report back to the Board. This reporting will generally include the making of recommendations to the Board, except where specific decision-making authority has been delegated to the committee by the Board.

All committees are governed by charters setting out their roles and responsibilities, membership, functions, reporting procedures and the manner in which they operate.

The purpose, structure and membership of each committee is reviewed regularly.

DATES COMMITTEE

The Dates Committee is established in accordance with Section 42 of the Racing Act 2003, which requires the committee to be established and maintained in order to determine, in consultation with each of the recognised industry organisations:

- all the dates in the forthcoming racing year on which domestic betting races will occur;
- the allocation of those dates among Racing Clubs; and,
- any conditions of allocation.

As at 31 July 2014, 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 Board in discharging its responsibilities with respect to financial reporting, the risk management practices of the NZ Racing Board, the work of the internal assurance function and the NZ Racing Board's external auditor, PricewaterhouseCoopers.

The Audit and Risk Committee meets at least four times a year and as at 31 July 2014 consisted of Alistair Ryan (Chair), Graham Cooney, Greg McCarthy and Rod Croon.

Risk oversight is provided through the Racing Board Leadership Team, supported by the Investigations, Risk and Assurance team who report to the Chief Financial Officer. Although the Chief Financial Officer position reports to the Chief Executive Officer, the role also has a matrix reporting line to the Chair of the Audit and Risk Committee.

The Investigations, Risk and Assurance team are charged with:

- implementing an enterprise risk management framework;
- developing and maintaining an effective Disaster Recovery and Business Continuity Management process;

- developing and maintaining the organisation's policy framework;
- monitoring and oversight of strategic and business risks from a risk matrix/ register process;
- oversight of risk incidents and control failures to enable feedback and rectification;
- establishment of risk appetite and tolerance in relation to particular transactions and activities;
- investigating suspicious or dishonest activity around wagering; and
- managing the NZ Racing Board's third party insurance programme.

In performing its role, the Investigations, Risk and Assurance function is adopting a focus of improving its performance and capabilities particularly in implementing a risk-based approach with a greater emphasis placed on those areas where the highest risk exists.

COMPENSATION AND DEVELOPMENT COMMITTEE

The Compensation and Development Committee monitors issues and determines policies and practices relating to the remuneration of the Chief Executive Officer and the Racing Board Leadership Team. It also oversees management development and succession planning processes. As at 31 July 2014, the Compensation and Development Committee's members are Rod Croon (Chair), 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: Graham Cooney (Chair), Alistair Ryan, Glenda Hughes and Barry Brown.



GREYHOUND RACING NZ GREYHOUND OF THE YEAR 2013/14 *Piggy Back*

BOARD MEMBERS AND REMUNERATION

NUMBER OF MEETINGS						
	MEMBER'S REMUNERATION NZ\$	BOARD MEETINGS	AUDIT & RISK COMMITTEE	COMPENSATION & DEVELOPMENT COMMITTEE	DATES COMMITTEE	NET PROCEEDS COMMITTEE
Mauro Barsi	42,250	14	-	2	2	-
Barry Brown	14,662	7	-	-	-	4
Graham Cooney	49,113	13	4	-	2	6
Rod Croon	47,250	14	4	2	2	-
Liz Dawson	10,563	3	-	1	-	1
Glenda Hughes	71,250	13	-	-	-	3
Greg McCarthy	42,250	14	4	-	2	-
Alistair Ryan	44,250	13	4	2	-	4
TOTAL	321,588	14	4	2	2	6

EMPLOYEE REMUNERATION BANDING EQUAL TO OR OVER \$100K

The table below shows the number of employees and former employees of the NZ Racing Board Group (including Racing Integrity Unit), not being directors, who, in their capacity as employees, received remuneration and other benefits during the 2014 financial year of at least NZ\$100,000.

The remuneration figures shown include all monetary payments actually made during the year, including incentives but excluding redundancies. The 2014 remuneration figures disclosed below include incentives paid during the 2014 financial year relating to the 2013 financial year. There were no incentive payments awarded relating to the 2014 financial year under senior management or Racing Board Leadership Team incentive schemes to be paid in the 2015 financial year.

NZ\$000	2014
100-110	13
110-120	9
120-130	14
130-140	13
140-150	12
150-160	6
160-170	6
170-180	3
190-200	1
200-210	3
210-220	1

NZ\$000	2014
230-240	1
240-250	2
260-270	1
300-310	1
310-320	1
360-370	1
410-420	2
440-450	1
510-520	1
960-970	1

RESPONSIBLE GAMBLING

For most customers, betting on racing and sports or playing gaming machines is a fun, safe and exciting pastime. However, some people are at risk from the impact of problem gambling. 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 (MoH), Department of Internal Affairs (DIA), the Problem Gambling Foundation (PGF) and other problem gambling support services.

Under the Gaming Act 2001 and 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 also imposes further obligations. The NZ Racing Board ensures its training programmes and harm minimisation procedures go above and beyond the statutory requirements set out in both.

During the 2013/14 year the NZ Racing Board's investment in responsible gambling measures was \$2.3 million (\$2.0 million in 2012/13). Of this, approximately \$2.1 million (\$1.9 million in 2012/13) was paid to the Crown to recover the costs of the MoH's problem gambling management services.

FOCUS ON HARM PREVENTION AND MINIMISATION

As part of its focus on harm prevention and minimisation, the NZ Racing Board works with industry partners on raising awareness of problem gambling and sporting integrity, maintains strong relationships with government officials, and works alongside problem gambling support agencies to better understand customer needs.

The NZ Racing Board endorses the MoH's strategies and programmes in this area, and is a representative in the Stakeholder Reference Group co-ordinated by the DIA, in participation with the MoH.

This is an important opportunity to contribute, alongside other industry providers and parties, to the discussion on key issues within the sector from a harm prevention and minimisation perspective.

In 2013/14 approximately \$118,500 (\$117,200 in 2012/13) was invested in the provision of training in harm minimisation and prevention procedures for staff in customer-contact roles within the NZ Racing Board and the wider racing industry in order to ensure leadership continues to be taken in this area.

IDENTIFICATION AND MANAGEMENT

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

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

In addition, the NZ Racing Board provides complementary training programmes developed in conjunction with the PGF, allowing staff to undertake problem gambling awareness and refresher training online.

Staff who work at gaming sites are also visited personally onsite by a 'Harm Prevention and Minimisation' trainer from the PGF, who talks with staff in more depth about what they see every day and how best they can deal with any concerns.

Exception reporting is conducted aimed at identifying any significant changes or concerns around the betting behaviour of account customers.

With these processes and staff training in place, 2013/14 saw 311 customers issued with exclusion notices (both self-exclusion and by the NZ Racing Board), while 31 account customers were placed in the Set Your Limits betting restriction programme. These numbers represent an extremely small percentage of the TAB customer base.

GAMBLING RESTRICTION PROGRAMMES

The NZ Racing Board offers self-exclusion and betting limit programmes to support customers who may wish to restrict their betting activity, and provide information online and in-store for customers on where they can seek problem gambling help.

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

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

Under the multi-venue self-exclusion programme, any customer can voluntarily arrange for access to TAB betting services to be denied for a period of up to 24 months. At the end of this term the exclusion will lapse only with the agreement of the NZ Racing Board.

The TAB also offers an account only exclusion programme. Through this programme a client can request to have themselves blocked from operating a TAB account but not from betting at our retail stores in cash. The NZ Racing Board can also choose to exclude customers from having TAB accounts.

These programmes provide customers with practical ways of helping them control their betting behaviour while still allowing them the enjoyment of racing and sports bets and playing gaming machines.

CLASS 4 GAMING DISTRIBUTIONS

The following tables show the application and distribution of net proceeds from the NZ Racing Board's Class 4 Gaming operation.

The NZ Racing Board returned just over \$10 million to the community through sports and racing authorised purposes, which was 50.7% of total Class 4 Net Proceeds (excluding GST), in the 2014 financial year.

RACING AUTHORISED PURPOSE	Amount Paid NZ\$
Racing Integrity Unit	5,399,321
Judicial Control Authority	1,291,667
NZ Racing Laboratory Services	1,086,113
TOTAL DISTRIBUTIONS TO RACING AUTHORISED PURPOSE	7,777,101

SPORTS AUTHORISED PURPOSE	Amount Paid NZ\$
Aspiring Gymsports	5,282
Auckland Basketball Services Ltd	25,000
Auckland Grammar Rowing Club	20,000
Auckland Hockey Association	5,750
Auckland Rugby League	12,002
Badminton Canterbury	3,986
Bay of Plenty Cricket Trusts	25,000
Bay of Plenty Rugby Union	4,700
Beerescourt Bowling Club	9,265
Blenheim Rowing Club	13,333
Bowls Hornby	3,600
Box Office Boxing	10,000
Cambridge Racquets Club	15,000
Canterbury Basketball Association	5,750
Canterbury Masters Figure Skating Club	5,700
Capital BMX Club	40,000
Carlton Netball Club	6,550
Castor Bay Tennis Club	3,000
Central Swimming	35,000
Clubs of Auckland	10,000

SPORTS AUTHORISED PURPOSE	Amount Paid NZ\$
Cockle Bay Tennis Club	3,500
College Old Boys - VUW Rugby Football Club	5,459
College Sport Wellington	6,146
College Sport Wellington	29,500
Cornwall Cricket Club (Hastings)	1,763
Cornwall District Cricket & Sports Association	4,500
Counties Manukau Cricket Association	15,000
Dunedin Lawn Bowls Stadium	5,000
Dynamic Rhythmic Gymnastics	56,480
Eastern Rugby Football Club	41,653
Eastern Suburbs Association Football Club	887
Evans Bay Yacht and Motor Boat Club	4,520
Harbour City GymSports	18,895
Harbour City GymSports	5,173
Hastings Community Sports Club	2,421
Hastings Rugby & Sports Club	6,560
Hawkes Bay Hockey Association	11,017
Hawkes Bay Tenpin Bowling Foundation	2,000

SPORTS AUTHORISED PURPOSE	Amount Paid NZ\$
Hawke's Bay United Football	10,000
Hibernian AFC	5,000
Hockey Wanganui	14,815
Hoop Club	8,602
Horowhenua AP & I Association	10,000
Horowhenua AP & I Association	1,520
Hutt Valley Basketball Association	40,000
Impact Gymsports Academy	19,323
Indoor Cricket New Zealand	37,561
Island Bay Softball	1,172
Island Bay Softball	5,750
Island Bay United AFC	5,250
Jellie Park Aqualand Sports Institute	5,750
John Walker Find your Field of Dreams Foundation	30,000
Judgeford Golf Club	32,700
Kahutia Bowling Club	5,750
Kayaking Tauranga	10,060
Ken Maunder Community Trust	5,943
Kihikihi Rugby Sports Club	15,000
Lyal Bay Surf Life Saving Club	5,000
Mainland Ice Racing Club	4,040
Manawatu Indoor Bowls Centre	1,702
Manor Park Golf Club	11,700
Maramarua Golf Club	2,000
Masterton Agricultural and Pastoral Association	40,000
Naenae Soccer Club	34,907
Naenae Soccer Club	1,025
Nelson Hockey Association	544
Netball Manawatu Centre	8,801
Netball Wellington Centre	2,000

SPORTS AUTHORISED PURPOSE	Amount Paid NZ\$
New Zealand Ice Hockey League	33,086
New Zealand Marist Rugby Football Federation	8,550
Nga Hau e Wha Whanau Hoe	15,008
No 4 Federation of NZ Soccer	5,000
North East Valley Bowling Club	5,200
Northern Districts Cricket Association	19,522
Northern Districts Cricket Association	100,000
Northern United Rugby Football Club	5,750
Otago Australian Rules Football Club	1,017
Otumoetai Football Club	3,000
Papakura Netball Centre	2,546
Papatoetoe Cricket Club	9,527
Paraparaumu Beach Golf Club	16,120
Patumahoe Rugby Football Club	2,465
Petone Football Club	14,578
Piha Surf Life Saving Club	6,240
Pioneer Basketball Club	2,500
Porirua Canoe Kayak Club	17,672
Porirua Rowing Club	25,500
Pukekohe Junior Boys Rugby Football Club	13,303
Pukekohe Metro Cricket Club	7,318
Rimutaka Inline Hockey Club	31,700
Rimutaka Rugby Football Club	42,825
Rugby League Northland	5,750
Selwyn Athletic Club	10,402
Softball Hutt Valley	10,000
Softball Hutt Valley	5,833
Southern Astros Baseball	1,500
Southern Cross Taekwon Do Academy	39,000
Southern Zone Rugby League	15,000

CLASS 4 GAMING DISTRIBUTIONS

SPORTS AUTHORISED PURPOSE	Amount Paid NZ\$
Special Olympics Hutt Valley	3,085
Special Olympics Lower North Island Regional Council	5,750
Special Olympics Manawatu	6,500
Stokes Valley Football Club	2,327
Stokes Valley Junior Softball	5,000
Stop Out Sports Club	11,224
Stop Out Sports Club	6,000
Storm Marching Team (Marching Wellington)	2,000
Suburbs New Lynn Cricket Club	5,000
Swimzone Racing	5,796
Tai Tapu Tennis Club	1,237
Takapuna District Cricket Club	5,896
Tamatea Rugby and Sports Club	1,286
Tararua Sports Club	700
Tararua Sports Club	2,500
Tararua Sports Club	9,366
Tauranga Synchronised Swimming	4,599
Tawa Association Football Club	5,750
Tawa Rugby Football Club	20,000
Te Awamutu Grandstand Community Trust *	350,000
Te Puke Gymsport	7,100
There's A Better Way Foundation	48,497
There's A Better Way Foundation	55,775
Touch New Zealand	8,658
Touch New Zealand	11,240
Upper Hutt Bowling and Tennis Club	92,800
Upper Hutt City Council (Activation)	30,000
Upper Hutt Hockey Club	3,000

SPORTS AUTHORISED PURPOSE	Amount Paid NZ\$
Victoria Bowling Club	3,001
Victoria University of Wellington Hunters RLC	2,622
Victoria University of Wellington Hunters RLC	4,600
Waihi Inline Hockey Club	4,270
Waikato Basketball Council	11,365
Waimate District Hunt Inc.	667
Wainuiomata Association Football Club	5,750
Wainuiomata BMX Club	46,642
Wainuiomata Boxing Club	5,500
Wainuiomata Cricket Club	3,150
Wainuiomata Golf Club	8,000
Wainuiomata Tennis Club	1,197
Wanderers Sports Club	21,377
Waterside Karori Association Football Club	9,500
Wellington High Performance Aquatics	5,358
Wellington Hockey Association	5,750
Wellington Rugby Football Union	9,658
Wellington Rugby Football Union	6,480
Wellington Rugby League	80,000
Wellington Rugby Referees Association	18,216
Wellington United Associated Football Club	1,467
Wellington Youth Sailing Trust	25,000
Weymouth Cosmopolitan and Sports Club	4,330
Youth Education and Sports Club	22,750
TOTAL DISTRIBUTIONS TO SPORTS AUTHORISED PURPOSE	2,348,955

* Approved in 2013 year, paid in 2014 year.

GRANTS RETURNED RELATING TO CURRENT YEAR GRANTS	Amount Returned NZ\$
Harbour City Gymsports	(331)
Kayaking Tauranga	(576)
Porirua Rowing Club	(500)
Wellington High Performance Aquatics	(383)
TOTAL RETURNED RELATING TO CURRENT YEAR GRANTS	(1,790)

GRANTS RETURNED RELATING TO PRIOR YEAR GRANTS	Amount Returned NZ\$
Auckland Rugby League	(992)
Avalon Rugby Football Club	(520)
Badminton Canterbury	(229)
Dunedin Ice Skating Club	(300)
Glendowie Tennis Club	(1,091)
Wainuiomata Rugby Football Club	(250)
TOTAL RETURNED RELATING TO PRIOR YEAR GRANTS	(3,382)

FIVE YEAR FINANCIAL SUMMARY

FULL YEAR (\$M)	2009/10	2010/11	2011/12	2012/13 ¹	2013/14
STATEMENT OF PROFIT OR LOSS					
Total turnover	1,582.0	1,531.6	1,814.0	1,956.8	2,088.5
Net betting margin	14.8%	14.7%	14.4%	14.2%	13.9%
Total income	268.3	268.3	293.1	304.9	312.4
Turnover related expenses	47.4	43.9	42.6	44.7	47.0
Operating expenses	92.5	100.5	123.2	123.5	128.3
Operating expenses/total income	34.5%	37.5%	42.0%	40.5%	41.1%
Net profit before distributions	128.4	123.8	127.3	136.7	137.0
Distributions to Racing Industry (including Racing Integrity Unit)	123.7	126.4	135.5	142.9	142.3
Group Distributions to Racing Industry (excluding Racing Integrity Unit) ²	-	-	-	137.4	136.6
Distributions to Sporting Community Organisations	-	-	0.2	0.5	2.3
Distributions to National Sporting Organisations	3.4	3.0	4.0	3.8	5.0
STATEMENT OF FINANCIAL POSITION					
Total assets	131.8	128.4	125.5	122.4	125.0
Current assets	62.4	52.1	66.6	71.1	64.2
Current liabilities	46.1	46.7	53.6	50.5	55.8
Current assets to current liabilities ratio	1.4	1.1	1.2	1.4	1.2
Equity	84.8	80.8	69.3	69.5	68.1
Return on average equity	154%	150%	170%	197%	199%

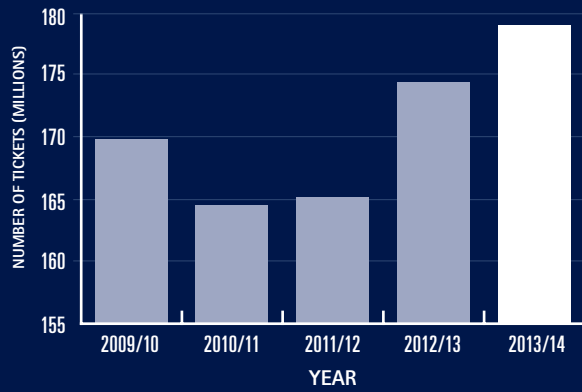
¹2012/13 figures have been restated to reflect financial reporting changes made in the 2013/14 financial year. The changes include the consolidation of Racing Integrity Unit (RIU) and the reclassification of industry initiatives and other industry costs from Distributions to Operating Expenses.

²Group Distributions reflect the distributions of the NZ Racing Board Group. The NZ Racing Board Group includes RIU results and therefore the distributions to RIU are eliminated (excluded) from the Group Distributions. The total distributions to RIU in 2013/14 were \$5.7 million (2012/13: \$5.5 million).

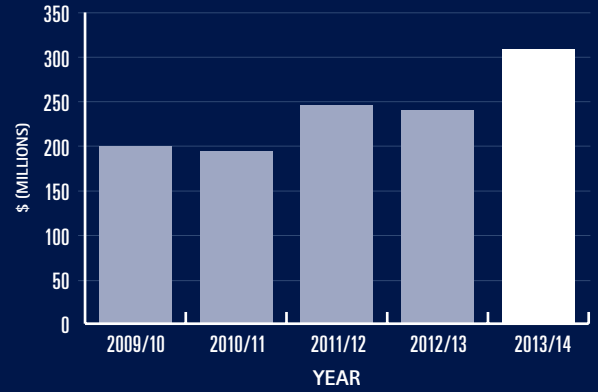
FIVE YEAR RACES SUMMARY

	2009/10	2010/11	2011/12	2012/13	2013/14
Greyhound	4,271	4,879	5,024	5,288	5,381
Harness	2,767	2,715	2,675	2,745	2,795
Thoroughbred	3,068	3,052	3,061	3,007	2,875
TOTAL	10,106	10,646	10,760	11,040	11,051
Imported	35,323	42,280	48,405	58,141	58,388
Exported	6,790	10,509	10,561	10,467	10,206

TICKETS ISSUED



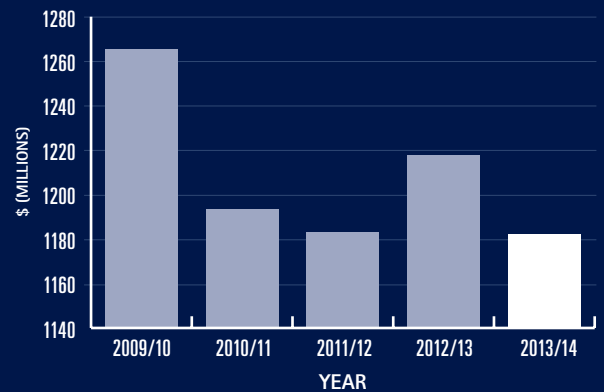
SPORTS FIXED ODDS BETTING



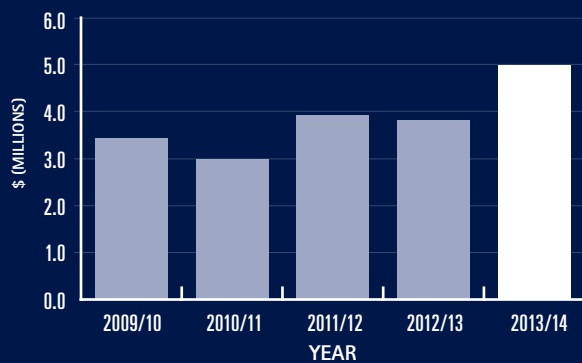
RACING FIXED ODDS BETTING



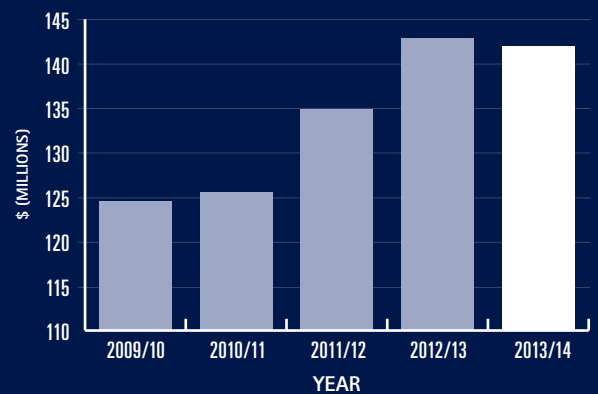
RACING TOTE



NATIONAL SPORTING ORGANISATION GRANTS



DISTRIBUTIONS TO RACING INDUSTRY (INCLUDING RIU)



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STATEMENTS OF PROFIT OR LOSS AND COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 JULY 2014

	NOTE	GROUP		PARENT	
		2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Betting and gaming turnover	2	2,088,545	1,956,824	2,088,545	1,956,824
INCOME					
Net betting revenue	2	255,526	243,515	255,526	243,515
Net gaming revenue	2	15,015	14,169	15,015	14,169
Other income	3	41,837	47,224	41,811	47,268
TOTAL INCOME		312,378	304,908	312,352	304,952
TURNOVER RELATED EXPENSES	4	47,032	44,738	47,032	44,738
OPERATING EXPENSES					
Premises and equipment expenses	5	28,997	28,519	28,540	28,101
Staff expenses	5	59,660	58,535	56,462	55,648
Other expenses	5	39,649	36,435	37,547	34,301
TOTAL OPERATING EXPENSES		128,306	123,489	122,549	118,050
TOTAL EXPENSES		175,338	168,227	169,581	162,788
NET PROFIT BEFORE DISTRIBUTIONS		137,040	136,681	142,771	142,164
Distributions	16	137,397	134,901	143,109	140,430
Provision for undistributed gaming net profit	15	1,072	1,514	1,072	1,514
NET (LOSS)/PROFIT AFTER DISTRIBUTIONS		(1,429)	266	(1,410)	220
Total comprehensive (loss)/income attributable to:					
NZ Racing Board		(1,410)	220	(1,410)	220
Non-controlling interest		(19)	46	-	-
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR		(1,429)	266	(1,410)	220

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

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 JULY 2014

	PARENT General reserve \$000	GROUP Non- controlling interest \$000	GROUP Total equity \$000
Balance as at 1 August 2012	69,255	(4)	69,251
Net profit after distributions	220	46	266
Balance as at 31 July 2013	69,475	42	69,517
Net (loss) after distributions	(1,410)	(19)	(1,429)
Balance as at 31 July 2014	68,065	23	68,088

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

STATEMENTS OF FINANCIAL POSITION AS AT 31 JULY 2014

		GROUP		PARENT	
	NOTE	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
CURRENT ASSETS					
Cash and cash equivalents	6	19,721	26,622	19,437	26,262
Trade and other receivables	7	8,163	11,713	8,380	11,960
Non-current assets held for sale	10	5,063	-	5,063	
Other financial assets	8	29,511	32,060	29,511	32,000
Other current assets		1,779	693	1,764	678
TOTAL CURRENT ASSETS		64,237	71,088	64,155	70,900
NON-CURRENT ASSETS					
Property, plant and equipment	9	41,787	40,718	41,496	40,412
Intangible assets	11	15,843	7,469	15,843	7,469
Other financial assets	8	3,143	3,149	3,000	2,967
TOTAL NON-CURRENT ASSETS		60,773	51,336	60,339	50,848
TOTAL ASSETS		125,010	122,424	124,494	121,748
CURRENT LIABILITIES					
Trade and other payables	12	24,339	22,194	24,077	21,817
Customer betting account deposits and vouchers	13	19,525	16,649	19,525	16,649
Other financial liabilities	14	5,900	5,368	5,900	5,368
Taxation payable		2,782	2,847	2,746	2,889
Provisions	15	3,205	3,482	3,010	3,253
TOTAL CURRENT LIABILITIES		55,751	50,540	55,258	49,976
NON-CURRENT LIABILITIES					
Other financial liabilities	14	32	1,565	32	1,565
Provisions	15	1,139	802	1,139	732
TOTAL NON-CURRENT LIABILITIES		1,171	2,367	1,171	2,297
TOTAL LIABILITIES		56,922	52,907	56,429	52,273
TOTAL EQUITY		68,088	69,517	68,065	69,475
TOTAL LIABILITIES AND EQUITY		125,010	122,424	124,494	121,748

The Board members of the NZ Racing Board authorised these financial statements for issue on 6 October 2014.



Glenda Hughes
Chair of the NZ Racing Board



Alistair Ryan
Chair of the Audit and Risk Committee
of the NZ Racing Board

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

STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 31 JULY 2014

	GROUP		PARENT	
	2014	2013	2014	2013
	\$000	\$000	\$000	\$000
CASH FLOWS FROM OPERATING ACTIVITIES				
INFLOWS				
Betting and gaming turnover	2,088,506	1,957,127	2,088,506	1,957,127
International racing fees and other income	26,701	28,316	26,732	30,878
Racing services income	14,457	15,140	14,457	15,140
Jackpot retentions and account deposits (net)	3,013	33	3,013	33
	<u>2,132,677</u>	<u>2,000,616</u>	<u>2,132,708</u>	<u>2,003,178</u>
OUTFLOWS				
Betting and gaming dividends paid	(1,755,546)	(1,641,463)	(1,755,546)	(1,641,463)
Goods and services tax (net)	(43,715)	(41,811)	(43,793)	(41,692)
Betting and gaming duty paid	(17,907)	(19,033)	(17,907)	(19,033)
National sporting organisations grants	(4,659)	(4,009)	(4,659)	(4,009)
Payments to suppliers	(96,616)	(90,053)	(93,967)	(89,366)
Payments for employee benefits including termination payments	(59,497)	(56,869)	(56,463)	(54,061)
Distributions to the racing codes	(136,953)	(135,161)	(136,953)	(135,161)
Payments for racing industry costs	(2,288)	(2,835)	(8,001)	(9,370)
Gaming distribution to external bodies	(1,302)	(1,008)	(1,302)	(1,008)
	<u>(2,118,483)</u>	<u>(1,992,242)</u>	<u>(2,118,591)</u>	<u>(1,995,163)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	14,194	8,374	14,117	8,015
CASH FLOWS FROM INVESTING ACTIVITIES				
INFLOWS				
Repayment of short-term deposits on maturity	4,500	8,004	4,500	8,004
Interest and distributions received	1,798	2,134	1,777	2,117
Proceeds from sale of property, plant and equipment	3,161	468	3,161	468
Repayments of club loans	186	6,116	186	6,116
	<u>9,645</u>	<u>16,722</u>	<u>9,624</u>	<u>16,705</u>
OUTFLOWS				
Investment of short-term deposits	(2,011)	-	(2,011)	-
Purchases of property, plant and equipment	(17,469)	(8,747)	(17,295)	(8,504)
Purchases of intangible assets	(9,551)	(1,147)	(9,551)	(1,147)
Club loans advanced	(165)	-	(165)	-
	<u>(29,196)</u>	<u>(9,894)</u>	<u>(29,022)</u>	<u>(9,651)</u>
NET CASH (USED IN)/PROVIDED BY INVESTING ACTIVITIES	(19,551)	6,828	(19,398)	7,054
CASH FLOWS FROM FINANCING ACTIVITIES				
OUTFLOWS				
Interest paid	(167)	(137)	(167)	(137)
Repayment of secured loan	(1,500)	-	(1,500)	-
NET CASH USED IN FINANCING ACTIVITIES	(1,667)	(137)	(1,667)	(137)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(7,024)	15,065	(6,948)	14,932
Cash and cash equivalents as at the beginning of the year	26,622	11,789	26,262	11,562
Foreign exchange gain/(loss) on cash and cash equivalents	123	(232)	123	(232)
CASH AND CASH EQUIVALENTS AS AT THE END OF THE YEAR	19,721	26,622	19,437	26,262

The movements in jackpot retentions and in GST have been shown on a net basis in the Statements 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 Statements of Cash Flows as these movements represent customer account balances rather than transactions of the NZ 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 2014

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;
- (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.

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

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.

The Group is a Tier-1 entity, under the XRB A1 Accounting Standards Framework (For-Profit Entities).

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 and Parent financial statements are presented in New Zealand dollars (\$) (the "presentation currency"), which is the NZ Racing Board's functional currency.

Changes in accounting policies

The NZ Racing Board has adopted the following standards as of 1 August 2013:

- NZ IFRS 10 *Consolidation Financial Statements*
- NZ IFRS 12 *Disclosure of Interests in Other Entities*
- NZ IFRS 13 *Fair Value Measurement*
- XRB A1 *Accounting Standards Framework (For-Profit Entities Update)*

There were no material effects of adopting these standards on the NZ Racing Board financial statements.

There have been no other changes in accounting policies during the current year. All the accounting policies have been applied consistently throughout the period and are the same as those used in the most recent financial statements.

Prior period comparatives

In the current year, the NZ Racing Board has consolidated RIU. Previously, the NZ Racing Board did not consolidate its interest in RIU due to the fact that the impact was immaterial on the financial statements. The NZ Racing Board holds a 25% interest in RIU, provides all the income and has joint control over the allocation of resources within RIU. This means that for financial reporting purposes RIU is a subsidiary of the NZ Racing Board. Comparative information has been restated where applicable on a consolidated basis to reflect that the NZ Racing Board has controlled RIU since 1 August 2011.

Certain other prior period comparatives have been reclassified to conform to the current period presentation. Refer to note 23.

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 2013.

At the date of authorisation, the following new standards, amendments or interpretations to existing standards were in issue but not yet effective.

- NZ IFRS 9 *Financial instruments* was issued in September 2014 as a complete version of the standard. NZ IFRS 9 replaces the parts of NZ IAS 39 that relate to the classification and measurement of financial instruments, hedge accounting and impairment. NZ IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the NZ Racing Board's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the NZ IAS 39 requirements. NZ IFRS 9 introduces a new expected credit loss model for calculating the impairment of financial assets. This standard is effective for reporting periods beginning on or after 1 January 2018. The NZ Racing Board has yet to assess NZ IFRS 9's full impact.

NOTES TO THE FINANCIAL STATEMENTS (CONT) FOR THE YEAR ENDED 31 JULY 2014

BASIS OF PREPARATION (cont)

- NZ IFRS 15 *Revenue from contracts with customers* replaces the current revenue recognition guidance in NZ IAS 18 *Revenue* and NZ IAS 11 *Construction contracts* and is applicable to all entities with revenue. It sets out a five step model for revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The NZ Racing Board has yet to assess NZ IFRS 15's full impact. The NZ Racing Board will apply this standard from 1 August 2017.

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.

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
- 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 2014

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 include broadcasting and racing services provided to the racing codes.
- **Gaming operations** - Operations relating to the provision of Gaming activities.

In addition to the two operating segments, the RIU operations and the Betting Account and Betting Vouchers Trust operations, including the impact of consolidation adjustments are presented separately in 'Other'.

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. The RIU operations are not considered an operating segment as financial information is not reported to the Chief Executive. All Gaming turnover is generated in New Zealand and geographical information for sports betting turnover is impracticable to collate.

	GROUP			
	Betting \$000	Gaming \$000	Other \$000	Total \$000
Year ended 31 July 2014				
Total turnover	1,832,553	255,992	-	2,088,545
Interest income	1,357	50	913	2,320
Interest expense	(129)	(38)	-	(167)
Depreciation and amortisation	(11,915)	(986)	(199)	(13,100)
Impairment expense	(187)	(16)	-	(203)
Net profit before distributions	133,093	9,678	(5,731)	137,040
Additions to non-current assets	25,425	2,474	192	28,091
Total assets	121,368	5,640	(1,998)	125,010
Total liabilities	53,303	5,640	(2,021)	56,922

Geographical revenue information:

Racing turnover generated in NZ	803,200
Racing turnover revenue generated in Australia	672,266
Racing turnover revenue generated in other overseas countries	41,225

Total betting turnover - Racing	1,516,691
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	GROUP			
	Betting \$000	Gaming \$000	Other \$000	Total \$000
Year ended 31 July 2013				
Total turnover	1,716,504	240,320	-	1,956,824
Interest income	2,050	85	17	2,152
Interest expense	(88)	(49)	-	(137)
Depreciation and amortisation	(11,740)	(1,167)	(167)	(13,074)
Impairment expense	(928)	-	-	(928)
Net profit before distributions	133,401	8,763	(5,483)	136,681
Additions to non-current assets	8,840	1,129	193	10,162
Total assets	116,610	5,123	691	122,424
Total liabilities	47,150	5,123	634	52,907

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
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NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 31 JULY 2014

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.

	GROUP AND PARENT	
	2014	2013
	\$000	\$000
TURNOVER (including GST)		
Betting turnover - racing totalisator	1,182,923	1,216,192
Betting turnover - racing fixed odds	333,768	254,221
Total betting turnover - Racing	1,516,691	1,470,413
Betting turnover - sports totalisator	1,519	2,605
Betting turnover - sports fixed odds	314,343	243,486
Total betting turnover - Sports	315,862	246,091
Total betting turnover	1,832,553	1,716,504
Gaming turnover	255,992	240,320
TOTAL BETTING AND GAMING TURNOVER	2,088,545	1,956,824
NET BETTING REVENUE		
Total betting turnover	1,832,553	1,716,504
Less: dividends payable	(1,522,382)	(1,422,219)
Gross betting revenue	310,171	294,285
Betting duty (4%)	(12,104)	(10,873)
GST (15%)	(40,697)	(38,356)
Problem gambling levy	(1,844)	(1,541)
NET BETTING REVENUE	255,526	243,515
NET GAMING REVENUE		
Gaming turnover	255,992	240,320
Less: dividends paid	(233,120)	(218,685)
Gross gaming revenue	22,872	21,635
Gaming machine duty (20%)	(4,574)	(4,327)
GST (15%)	(2,983)	(2,822)
Problem gambling levy	(300)	(317)
NET GAMING REVENUE	15,015	14,169

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 31 JULY 2014

3. OTHER INCOME

Distributions received is income distributed from the Betting Account and Betting Vouchers Trust to the NZ Racing Board.

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.

Merchant fee revenue is income derived from credit card transaction fees charged to customers (partial recovery of Merchant Fees which are charged to NZ Racing Board).

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.

Revenue from Broadcasting within New Zealand 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.

All other income is measured at the fair value of the consideration given and is recognised when risks and rewards transfer from the NZ Racing Board.

	GROUP		PARENT	
	2014	2013	2014	2013
	\$000	\$000	\$000	\$000
Distributions received	-	-	892	876
Interest income	2,320	2,152	1,407	1,259
Merchant fee revenue	1,610	1,456	1,610	1,456
NZ racing shown overseas revenue	18,597	23,984	18,597	23,984
Racing services income	14,457	15,140	14,457	15,140
Revenue from broadcasting within New Zealand	863	775	863	775
Other income	3,990	3,717	3,985	3,778
TOTAL OTHER INCOME	41,837	47,224	41,811	47,268

4. TURNOVER RELATED EXPENSES

Commingling 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. A portion of the fees are fixed and the remaining is based on a percentage of the turnover earned by the outlet.

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 each individual import race.

	GROUP AND PARENT	
	2014	2013
	\$000	\$000
Commingling fee	2,497	2,378
National sporting organisations grants	5,038	3,816
Outlet and agency fees	15,584	15,346
Overseas racing rights	21,925	20,716
Thermal paper and betting slips	1,019	1,396
Other turnover related expenses	969	1,086
TOTAL TURNOVER RELATED EXPENSES	47,032	44,738

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 31 JULY 2014

5. OPERATING EXPENSES

	GROUP		PARENT	
	2014 \$000	2013 \$000	2014 \$000	2013 \$000
Depreciation and amortisation	13,100	13,074	12,901	12,908
Rent	6,899	6,351	6,867	6,347
Repairs and maintenance	4,696	4,303	4,693	4,302
Other premises and equipment expenses	4,302	4,791	4,079	4,544
TOTAL PREMISES AND EQUIPMENT EXPENSES	28,997	28,519	28,540	28,101
Salaries and wages (including contractors)	54,033	52,298	51,078	49,620
Termination payments	1,536	2,582	1,536	2,582
Other staff expenses	4,091	3,655	3,848	3,446
TOTAL STAFF EXPENSES	59,660	58,535	56,462	55,648
Advertising	7,068	4,802	7,068	4,802
Auditors' remuneration				
- Audit and other assurance services ¹	143	122	135	117
- Treasury advisory services ²	29	-	29	-
- Other services ³	6	4	6	4
Board members' fees ⁴	386	307	322	307
Broadcasting costs	7,039	6,701	7,039	6,701
Merchant fees	2,548	1,704	2,548	1,704
Consultancy	2,470	3,073	2,464	3,071
Data and telecommunications	4,738	4,411	4,685	4,340
Gain on disposal of property, plant and equipment and intangibles	(149)	(787)	(139)	(787)
Impairment on property, plant and equipment and intangibles	203	928	203	928
Insurance	1,412	1,694	1,391	1,661
Interest expense	167	137	167	137
Legal costs	735	645	572	458
Printing and stationery	1,124	1,062	1,110	1,037
Publications	3,636	3,696	3,636	3,696
Swabbing expenses	1,177	1,365	-	-
Travel and accommodation	2,842	2,622	2,512	2,277
Venue costs	1,006	785	1,006	785
Other operating expenses	3,069	3,164	2,793	3,063
TOTAL OTHER EXPENSES	39,649	36,435	37,547	34,301

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

² Treasury advisory services relates to a review of the Treasury Policy and on-going treasury advice.

³ Other services related to the review of the Gaming financial statements and forecast information for Class 4 relicensing purposes and general training courses attended by various staff.

⁴ Board fees for the Group include fees paid to the Board members of the RIU of \$64,000 (2013: nil).

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 31 JULY 2014

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand, cash at bank and call deposits with an original 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 profit or loss and included within other income.

	GROUP		PARENT	
	2014	2013	2014	2013
	\$000	\$000	\$000	\$000
Cash and cash equivalents – NZ currency	19,231	25,712	18,947	25,352
Cash and cash equivalents – foreign currencies	490	910	490	910
TOTAL CASH AND CASH EQUIVALENTS	19,721	26,622	19,437	26,262

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 non-NZ Racing Board owned 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 non-NZ Racing Board owned 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 non-NZ Racing Board owned retail outlets being unable to make required payments. Any impairment provision for doubtful debts is calculated at an 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 profit or loss.

	GROUP		PARENT	
	2014	2013	2014	2013
	\$000	\$000	\$000	\$000
Trade and other receivables	8,295	11,806	8,512	12,053
Provision for doubtful debts	(132)	(93)	(132)	(93)
TOTAL TRADE AND OTHER RECEIVABLES	8,163	11,713	8,380	11,960

The average period outstanding on sales of goods and services is 30 days (2013: 47 days). No interest is charged on trade receivables past due date.

As at 31 July 2014, \$0.2m of the total trade and other receivables were past due but not impaired (2013: \$0.4m).

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 31 JULY 2014

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 short-term deposit balance of \$22.0 million at 31 July 2014 (2013: \$20.0 million) is held to cover the total owed to customers of betting account deposits and vouchers liability of \$19.5 million (2013: \$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 (refer to note 22).

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 profit or loss.

	GROUP		PARENT	
	2014 \$000	2013 \$000	2014 \$000	2013 \$000
Corporate bonds	-	2,000	-	2,000
Inter-company loan to Betting Accounts and Vouchers Trust	-	-	22,011	20,000
Loans to racing clubs	2,991	2,951	2,991	2,951
Short-term deposits - Betting Accounts and Vouchers Trust	22,011	20,000	-	-
Short-term deposits	7,500	10,000	7,500	10,000
Other	152	258	9	16
TOTAL OTHER FINANCIAL ASSETS	32,654	35,209	32,511	34,967

Disclosed as:

Current	29,511	32,060	29,511	32,000
Non-current	3,143	3,149	3,000	2,967
TOTAL OTHER FINANCIAL ASSETS	32,654	35,209	32,511	34,967

	GROUP AND PARENT	
	2014 \$000	2013 \$000
LOANS TO RACING CLUBS		
RACE Inc	2,991	2,931
Whangarei Racing Club Inc	-	20
LOANS TO CLUBS AND CODES	2,991	2,951

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 31 JULY 2014

8. OTHER FINANCIAL ASSETS (cont)

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.

GROUP AND PARENT	Loan carrying value \$000	Net fair value adjustments \$000	Loan balance outstanding \$000
2014			
RACE Inc	2,991	-	2,991
LOANS TO RACING CLUBS	2,991	-	2,991
2013			
RACE Inc	2,931	67	2,998
Whangarei Racing Club Inc	20	-	20
LOANS TO RACING CLUBS	2,951	67	3,018

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

	Interest rate 2014	Interest rate 2013	Rate type
RACE Inc	4.50%	3.50%	Variable
Whangarei Racing Club Inc	-	2.88%	Variable

On 31 July 2014, the Whangarei Racing Club Inc loan was transferred to New Zealand Thoroughbred Racing Incorporated.

In February 2014, the NZ Racing Board and RACE Inc reached an agreement to extend the term of the loan under the same conditions, for a further period of five years or earlier if called by the lender. It is not expected that this loan will be repaid within the next 12 months and it is therefore classified as a non-current asset.

Collateral

The outstanding balance of the loan granted by the NZ Racing Board is secured and is 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 2014 was \$31.4 million (2013: \$31.5 million). The NZ Racing Board provided a guarantee to the BNZ to the value of \$5.3 million (2013: \$8.8 million). Refer to note 20 for more information.

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.

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 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.

Buildings (at deemed cost)	10-40 years
Leasehold improvements	6-7 years
Computer hardware	2-7 years
Motor vehicles	4-7 years
Operations and trackside equipment	5-15 years
Gaming machines	5 years
Other (mainly consists of laboratory equipment, furniture and office equipment)	5-10 years

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 31 JULY 2014

9. PROPERTY, PLANT AND EQUIPMENT (cont)

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 profit or loss.

GROUP

	Land and buildings	Leasehold improvements	Computer hardware
	\$000	\$000	\$000
AS AT 1 AUGUST 2012			
At cost	15,771	25,180	40,382
Accumulated depreciation	(5,413)	(14,809)	(33,216)
CARRYING AMOUNT	10,358	10,371	7,166
Additions	27	576	22
Disposals	(2,294)	(1)	(28)
Net transfers between asset classes	-	19	2
Transferred from work in progress	173	669	2,214
Depreciation for the year	(480)	(2,532)	(2,736)
Impairment losses	-	(85)	(35)
CARRYING AMOUNT AT 31 JULY 2013	7,784	9,017	6,605
At cost	13,047	26,046	42,344
Accumulated depreciation	(5,263)	(17,029)	(35,739)
CARRYING AMOUNT	7,784	9,017	6,605
Additions	254	1,538	3,928
Disposals	(11)	(18)	(30)
Net transfers between asset classes	-	(2,375)	903
Transferred from work in progress	868	447	1,378
Transferred to assets held for sale	(5,063)	-	-
Depreciation for the year	(459)	(2,358)	(2,749)
Impairment losses	(22)	(13)	(16)
CARRYING AMOUNT AT 31 JULY 2014	3,351	6,238	10,019
At cost	7,331	24,356	48,894
Accumulated depreciation	(3,980)	(18,118)	(38,875)
CARRYING AMOUNT	3,351	6,238	10,019

At 31 July 2014 the contractual commitment for acquisition of property, plant and equipment for Group and Parent was \$1.9 million (2013: \$0.1 million).

There are no restrictions on property, plant and equipment assets or any assets pledged as securities for liabilities.

Motor vehicles \$000	Operations and trackside equipment \$000	Gaming machines \$000	Other \$000	Work in progress \$000	Total property, plant and equipment \$000
3,773	36,341	2,860	4,847	3,120	132,274
(2,566)	(26,791)	(725)	(3,274)	-	(86,794)
1,207	9,550	2,135	1,573	3,120	45,480
701	129	1,209	17	6,042	8,723
(9)	-	(70)	-	-	(2,402)
-	(19)	-	(2)	292	292
507	727	-	147	(4,437)	-
(509)	(3,480)	(994)	(318)	-	(11,049)
-	-	-	(95)	(111)	(326)
1,897	6,907	2,280	1,322	4,906	40,718
4,572	37,152	3,876	4,666	4,906	136,609
(2,675)	(30,245)	(1,596)	(3,344)	-	(95,891)
1,897	6,907	2,280	1,322	4,906	40,718
1,366	245	1,643	972	7,648	17,594
(8)	(26)	(189)	-	-	(282)
351	1,345	(195)	(37)	-	(8)
777	1,080	284	458	(5,690)	(398)
-	-	-	-	-	(5,063)
(642)	(3,386)	(637)	(476)	-	(10,707)
-	-	(13)	(3)	-	(67)
3,741	6,165	3,173	2,236	6,864	41,787
9,050	35,509	4,897	5,398	6,864	142,299
(5,309)	(29,344)	(1,724)	(3,162)	-	(100,512)
3,741	6,165	3,173	2,236	6,864	41,787

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 31 JULY 2014

9. PROPERTY, PLANT AND EQUIPMENT (cont)

PARENT

	Land and buildings	Leasehold improvements	Computer hardware
	\$000	\$000	\$000
AS AT 1 AUGUST 2012			
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)	(28)
Net transfers between asset classes	-	19	2
Transferred from work in progress	173	669	2,214
Depreciation for the year	(480)	(2,530)	(2,725)
Impairment losses	-	(85)	(35)
CARRYING AMOUNT AT 31 JULY 2013	7,784	9,013	6,585
At cost	13,047	26,038	42,302
Accumulated depreciation	(5,263)	(17,025)	(35,717)
CARRYING AMOUNT	7,784	9,013	6,585
Additions	254	1,538	3,917
Disposals	(11)	(18)	(30)
Net transfers between asset classes	-	(2,375)	903
Transferred from work in progress	868	447	1,378
Transferred to assets held for sale	(5,063)	-	-
Depreciation for the year	(459)	(2,357)	(2,738)
Impairment losses	(22)	(13)	(16)
CARRYING AMOUNT AT 31 JULY 2014	3,351	6,235	9,999
At cost	7,331	24,348	48,841
Accumulated depreciation	(3,980)	(18,113)	(38,842)
CARRYING AMOUNT	3,351	6,235	9,999

Motor vehicles \$000	Operations and trackside equipment \$000	Gaming machines \$000	Other \$000	Work in progress \$000	Total property, plant and equipment \$000
3,359	36,341	2,860	4,847	3,120	131,823
(2,416)	(26,791)	(725)	(3,274)	-	(86,631)
943	9,550	2,135	1,573	3,120	45,192
521	129	1,209	17	6,042	8,530
-	-	(70)	-	-	(2,393)
-	(19)	-	(2)	292	292
507	727	-	147	(4,437)	-
(356)	(3,480)	(994)	(318)	-	(10,883)
-	-	-	(95)	(111)	(326)
1,615	6,907	2,280	1,322	4,906	40,412
3,993	37,152	3,876	4,666	4,906	135,980
(2,378)	(30,245)	(1,596)	(3,344)	-	(95,568)
1,615	6,907	2,280	1,322	4,906	40,412
1,185	245	1,643	972	7,648	17,402
-	(26)	(189)	-	-	(274)
351	1,345	(195)	(37)	-	(8)
777	1,080	284	458	(5,690)	(398)
-	-	-	-	-	(5,063)
(455)	(3,386)	(637)	(476)	-	(10,508)
-	-	(13)	(3)	-	(67)
3,473	6,165	3,173	2,236	6,864	41,496
8,352	35,509	4,897	5,398	6,864	141,540
(4,879)	(29,344)	(1,724)	(3,162)	-	(100,044)
3,473	6,165	3,173	2,236	6,864	41,496

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 31 JULY 2014

10. NON-CURRENT ASSETS HELD FOR SALE

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

The non-current assets classified as held for sale of \$5.1 million (2013: nil) are assets relating to the NZ Racing Board Petone Head Office building that were marketed for sale in March 2014, at which point the assets were classified as held for sale under NZ IFRS 5 *Non-current assets held for sale and discontinued operations*. The assets include land and building assets, previously classified as property, plant and equipment and are included within the betting segment. As at 31 July 2014, the NZ Racing Board had an unconditional agreement to sell and leaseback the property to Oyster Property Group for a price above the carrying amount. Settlement, title transfer and the subsequent gain on sale was recognised on 7 August 2014, subsequent to reporting date.

11. 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 profit or loss. The estimated useful life and amortisation method is reviewed at the end of each annual reporting period.

Software	3–7 years
Broadcasting licences	14–20 years
Lease intangibles	2–6 years

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 profit or loss within Other Expenses.

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 profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 31 JULY 2014

11. INTANGIBLE ASSETS (cont)

GROUP AND PARENT

	Software \$000	Broadcasting licences \$000	Other intangible assets \$000	Work in progress \$000	Total intangible assets \$000
AS AT 1 AUGUST 2012					
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
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
Additions	2,109	-	283	8,105	10,497
Net transfers between asset classes	8	-	-	-	8
Transferred from work in progress	873	-	334	(809)	398
Amortisation for the year	(2,151)	(130)	(112)	-	(2,393)
Impairment losses	(6)	(4)	-	(126)	(136)
CARRYING AMOUNT AT 31 JULY 2014	5,631	1,682	505	8,025	15,843
At cost	51,309	3,391	617	8,025	63,342
Accumulated amortisation	(45,678)	(1,709)	(112)	-	(47,499)
CARRYING AMOUNT	5,631	1,682	505	8,025	15,843

At 31 July 2014, work in progress relates mainly to internally generated software relating to the mobile application and enterprise service bus projects.

At 31 July 2014 the contractual commitment for acquisition of software and other intangibles was \$0.1 million (2013: nil).

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 2014

12. 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 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.

	GROUP		PARENT	
	2014 \$000	2013 \$000	2014 \$000	2013 \$000
Accruals	6,442	7,415	6,194	6,410
Amounts payable to Board members	64	22	62	22
Employee entitlements	3,852	3,531	3,373	3,123
Racing code distributions payable	3,805	6,206	3,805	6,206
Trade payables	10,176	5,020	10,643	6,056
TOTAL TRADE AND OTHER PAYABLES	24,339	22,194	24,077	21,817

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.

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.

The balance of the customer betting accounts deposit and vouchers liabilities as at 31 July 2014 was \$19.5m (2013: \$16.6m). Short-term deposits totalling \$22.0 million (2013: 20.0 million) are held in trust to cover this liability (refer note 8).

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 31 JULY 2014

14. 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 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 2014.

	GROUP AND PARENT	
	2014	2013
	\$000	\$000
Contributions to assets by racing codes	64	97
Jackpot retentions	1,534	1,578
Secured bank loan	-	1,500
Unpaid dividends	3,016	2,879
Unresulted turnover	1,318	879
TOTAL OTHER FINANCIAL LIABILITIES	5,932	6,933
<i>Disclosed as:</i>		
Current	5,900	5,368
Non-current	32	1,565
TOTAL OTHER FINANCIAL LIABILITIES	5,932	6,933

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 31 JULY 2014

15. PROVISIONS

Provisions are recognised when the following three conditions are met:

- the Group 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
- 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.

GROUP	Make good	Employee benefit	Redundancy	Undistributed Gaming net profit	Onerous contracts	Total provisions
	\$000	\$000	\$000	\$000	\$000	\$000
BALANCE 1 AUGUST 2012	587	640	-	3,037	-	4,264
Additional provisions	133	372	1,211	1,514	-	3,230
Provisions released	(7)	(46)	-	-	-	(53)
Amounts used	(56)	(64)	-	(3,037)	-	(3,157)
BALANCE AT 31 JULY 2013	657	902	1,211	1,514	-	4,284
Additional provisions	458	108	1,439	1,072	343	3,420
Provisions released	(78)	(15)	(175)	-	-	(268)
Amounts used	(5)	(196)	(1,377)	(1,514)	-	(3,092)
BALANCE AT 31 JULY 2014	1,032	799	1,098	1,072	343	4,344

PARENT	Make good	Employee benefit	Redundancy	Undistributed Gaming net profit	Onerous contracts	Total provisions
	\$000	\$000	\$000	\$000	\$000	\$000
BALANCE 1 AUGUST 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
Additional provisions	458	81	1,439	1,072	343	3,393
Provisions released	(78)	(15)	(175)	-	-	(268)
Amounts used	(5)	(65)	(1,377)	(1,514)	-	(2,961)
BALANCE AT 31 JULY 2014	1,032	604	1,098	1,072	343	4,149

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 31 JULY 2014

15. PROVISIONS (cont)

	GROUP		PARENT	
	2014 \$000	2013 \$000	2014 \$000	2013 \$000
Disclosed as:				
Current	3,205	3,482	3,010	3,253
Non-current	1,139	802	1,139	732
TOTAL PROVISIONS	4,344	4,284	4,149	3,985

(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 expected future costs are included within the carrying amount of 'Leasehold Improvement' assets within Property, Plant and Equipment. The leases have varying expiry dates up to 2020. 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.

(c) Redundancy provision

The redundancy provision of \$1.1 million recognised at 31 July 2014, relates to the announcement by the NZ Racing Board in December 2013 that it has committed to a plan to restructure its Broadcasting division and relocate it to Auckland by September 2014. Following this announcement, the NZ Racing Board established this provision for the expected redundancy costs as a result of some Broadcasting staff electing not to relocate to Auckland.

(d) Undistributed Gaming net profit

As at 31 July 2014, undistributed net profit relating to the Gaming operations totalled \$1.1 million (2013: \$1.5 million). As all Class 4 Gaming net profit must be distributed for authorised purposes and cannot be retained within the business, a provision has been made for future distribution.

(e) Onerous contract

The provision for onerous contracts of \$0.3 million relates to commitments under two existing contracts that no longer provide economic benefits to NZ Racing Board. The commitments expire September 2015 or earlier.

NOTES TO THE FINANCIAL STATEMENTS (CONT) FOR THE YEAR ENDED 31 JULY 2014

16. 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 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.

The NZ Racing Board also provides funding for certain other racing industry initiatives which are made at the discretion of the NZ Racing Board. The expenses incurred in providing this funding have been re-classified to operating expenses for the 2013 year onwards to better reflect the nature of the payments. Refer to note 23 for more information.

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

Distributions of Gaming Net Profit are determined separately from distributions from Betting Net Profit. Distributions from the Gaming Net Profit are made to both external sporting bodies and to the racing industry. The racing industry distributions from Gaming operating profits are distributions to cover specific industry costs which are considered to be for racing authorised purposes. These costs include Judicial Control Authority ("JCA"), RIU and Racing Laboratory Services. All distributions from Gaming Net Profit 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.

'Undistributed Gaming Net Profit from prior year' represents the payments made to the racing industry and Sports Authorised Purposes from the prior year Provision for Undistributed Gaming Net Profit. As these amounts were undistributed in the prior year, they are considered to be distributions in the current year.

The Gambling (Class 4 Net Proceeds) Regulations 2004 requires 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 Statements of Financial Position.

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 31 JULY 2014

16. DISTRIBUTIONS (cont)

PARENT 2014	Betting \$000	Gaming \$000	Undistributed Gaming net profit from prior year \$000	Total \$000
NET PROFIT BEFORE DISTRIBUTIONS	133,093	9,678	-	142,771
DISTRIBUTIONS FROM NET PROFIT				
Distributions to the racing industry				
Code funding	134,082	-	-	134,082
RIU ¹	313	4,693	706	5,712
Racing Laboratory Services ¹	107	891	195	1,193
JCA	-	967	325	1,292
TOTAL DISTRIBUTIONS TO THE RACING INDUSTRY	134,502	6,551	1,226	142,279
Distributions to Sporting Community Organisations				
Sports Authorised Purposes (paid and payable)	-	2,056	288	2,344
TOTAL DISTRIBUTIONS TO SPORTING COMMUNITY ORGANISATIONS	-	2,056	288	2,344
Reversal of prior year provision for undistributed Net Profit	-	-	(1,514)	(1,514)
TOTAL DISTRIBUTIONS FROM NET PROFIT	134,502	8,607	-	143,109
DISTRIBUTIONS FROM TURNOVER				
Distributions to National Sporting Organisations				
Sports Authorised Purpose (note 4) ²	5,038	-	-	5,038
TOTAL DISTRIBUTIONS FROM TURNOVER	5,038	-	-	5,038

¹ The distributions made to RIU and Racing Laboratory Services from Betting operations relates to a correction relating to the previous year.

² Distributions made to National Sporting Organisations are included within Turnover Related Expenses in note 4.

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 31 JULY 2014

16. DISTRIBUTIONS (cont)

PARENT 2013	Betting	Gaming	Undistributed Gaming net profit from prior year	Total
	\$000	\$000	\$000	\$000
NET PROFIT BEFORE DISTRIBUTIONS	133,401	8,763	-	142,164
DISTRIBUTIONS FROM NET PROFIT				
Distributions to the Racing Industry				
Code funding	128,829	3,261	2,891	134,981
RIU	2,995	2,534	-	5,529
Racing Laboratory Services	595	515	-	1,110
JCA	758	542	-	1,300
TOTAL DISTRIBUTIONS TO THE RACING INDUSTRY	133,177	6,852	2,891	142,920
Distributions to Sporting Community Organisations				
Sports Authorised Purposes (paid and payable)	-	401	146	547
TOTAL DISTRIBUTIONS TO SPORTING COMMUNITY ORGANISATIONS	-	401	146	547
Reversal of prior period provision for undistributed Net Profit	-	-	(3,037)	(3,037)
TOTAL DISTRIBUTIONS FROM NET PROFIT	133,177	7,253	-	140,430
DISTRIBUTIONS FROM TURNOVER				
Distributions to National Sporting Organisations				
Sports Authorised Purpose (note 4) ¹	3,816	-	-	3,816
TOTAL DISTRIBUTIONS FROM TURNOVER	3,816	-	-	3,816

¹ Distributions made to National Sporting Organisations are included within Turnover Related Expenses in note 4.

The following is a reconciliation from total Parent distributions to total Group distributions:

	2014 \$000	2013 \$000
PARENT DISTRIBUTIONS	143,109	140,430
Distributions to RIU - eliminated on consolidation	(5,712)	(5,529)
GROUP DISTRIBUTIONS	137,397	134,901

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 31 JULY 2014

17. 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 mainly comprises the general reserve, consisting of accumulated balances of prior years' 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.

(b) Categories of financial instruments

The NZ Racing Board classifies its financial assets in the following categories: held to maturity and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the NZ Racing Board has the intention and ability to hold to maturity other than those that meet the definition of Loans and Receivables. Held-to-maturity investments include Short-Term Deposits.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The NZ Racing Board's loans and receivables balance includes mainly Cash and Cash Equivalents, Trade and Other Receivables and Loans to racing clubs.

The NZ Racing Board classifies all of its financial liabilities as Other Financial Liabilities.

GROUP 2014	Held-to- maturity \$000	Loans and receivables \$000	Other financial liabilities \$000	Total \$000
ASSETS				
Cash and cash equivalents	-	19,721	-	19,721
Trade and other receivables	-	8,163	-	8,163
Other financial assets	29,511	3,143	-	32,654
TOTAL FINANCIAL ASSETS	29,511	31,027	-	60,538
Total non-financial assets				64,472
TOTAL ASSETS				125,010
LIABILITIES				
Trade and other payables	-	-	24,339	24,339
Customer betting deposits and vouchers	-	-	19,525	19,525
Unpaid dividends	-	-	3,016	3,016
Unresulted turnover	-	-	1,318	1,318
Other financial liabilities	-	-	1,598	1,598
TOTAL FINANCIAL LIABILITIES	-	-	49,796	49,796
Total non-financial liabilities				7,126
TOTAL LIABILITIES				56,922

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 31 JULY 2014

17. FINANCIAL INSTRUMENTS (cont)

GROUP 2013	Held-to- maturity \$000	Loans and receivables \$000	Other financial liabilities \$000	Total \$000
ASSETS				
Cash and cash equivalents	-	26,622	-	26,622
Trade and other receivables	-	11,713	-	11,713
Other financial assets	32,000	3,209	-	35,209
TOTAL FINANCIAL ASSETS	32,000	41,544	-	73,544
Total non-financial assets				48,880
TOTAL ASSETS				122,424
LIABILITIES				
Trade and other payables	-	-	22,194	22,194
Customer 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
Other financial liabilities	-	-	1,675	1,675
TOTAL FINANCIAL LIABILITIES	-	-	45,776	45,776
Total non-financial liabilities				7,131
TOTAL LIABILITIES				52,907

PARENT 2014	Held-to- maturity \$000	Loans and receivables \$000	Other financial liabilities \$000	Total \$000
ASSETS				
Cash and cash equivalents	-	19,437	-	19,437
Trade and other receivables	-	8,380	-	8,380
Other financial assets	29,511	3,000	-	32,511
TOTAL FINANCIAL ASSETS	29,511	30,817	-	60,328
Total non-financial assets				64,166
TOTAL ASSETS				124,494
LIABILITIES				
Trade and other payables	-	-	24,077	24,077
Customer betting deposits and vouchers	-	-	19,525	19,525
Unpaid dividends	-	-	3,016	3,016
Unresulted turnover	-	-	1,318	1,318
Other financial liabilities	-	-	1,598	1,598
TOTAL FINANCIAL LIABILITIES	-	-	49,534	49,534
Total non-financial liabilities				6,895
TOTAL LIABILITIES				56,429

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 31 JULY 2014

17. FINANCIAL INSTRUMENTS (cont)

PARENT 2013	Held-to- maturity \$000	Loans and receivables \$000	Other financial liabilities \$000	Total \$000
ASSETS				
Cash and cash equivalents	-	26,262	-	26,262
Trade and other receivables	-	11,960	-	11,960
Other financial assets	32,000	2,967	-	34,967
TOTAL FINANCIAL ASSETS	32,000	41,189	-	73,189
Total non-financial assets				48,559
TOTAL ASSETS				121,748
LIABILITIES				
Trade and other payables	-	-	21,817	21,817
Customer 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
Other financial liabilities	-	-	1,675	1,675
TOTAL FINANCIAL LIABILITIES	-	-	45,399	45,399
Total non-financial liabilities				6,874
TOTAL LIABILITIES				52,273

(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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 31 JULY 2014

17. FINANCIAL INSTRUMENTS (cont)

(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.

The liquidity risk of the Parent is materially consistent with that of the Group.

GROUP FINANCIAL LIABILITIES 2014	Carrying amount \$000	On demand \$000	Less than 3 months \$000	3 months to 1 year \$000	1-5 years \$000	Total contractual cash flows \$000
Trade and other payables	24,339	-	24,339	-	-	24,339
Customer betting deposits and vouchers	19,525	19,525	-	-	-	19,525
Unpaid dividends	3,016	3,016	-	-	-	3,016
Unresulted turnover	1,318	-	1,318	-	-	1,318
Total notional cash outflows for recognised liabilities	48,198	22,541	25,657	-	-	48,198
<i>Financial guarantees (maximum amount payable)</i>						
Club loan guarantees	-	5,286	-	-	-	5,286
Other third party guarantees	-	8,900	-	-	-	8,900
TOTAL NOTIONAL CASH OUTFLOWS	48,198	36,727	25,657	-	-	62,384

GROUP FINANCIAL LIABILITIES 2013	Carrying amount \$000	On demand \$000	Less than 3 months \$000	3 months to 1 year \$000	1-5 years \$000	Total contractual cash flows \$000
Trade and other payables	22,194	-	22,194	-	-	22,194
Customer 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	44,101	19,528	23,086	37	1,518	44,169
<i>Financial guarantees (maximum amount payable)</i>						
Club loan guarantees	-	8,820	-	-	-	8,820
TOTAL NOTIONAL CASH OUTFLOWS	44,101	28,348	23,086	37	1,518	52,989

As at 31 July 2014, it is not expected that the financial guarantees will be called.

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 31 JULY 2014

17. 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 credit risk of the Parent is materially consistent with that of the Group. The maximum exposure is equal to the carrying amount of the financial assets, as follows:

	GROUP	
	2014 \$000	2013 \$000
MAXIMUM EXPOSURE TO CREDIT RISK		
Cash and cash equivalents	19,721	26,622
Short-term deposits	29,511	30,000
TOTAL LIQUID INVESTMENTS	49,232	56,622
Corporate bonds	-	2,000
Loans to racing clubs	2,991	2,951
Trade and other receivables (net of doubtful debts)	8,163	11,713
Other	152	258
TOTAL FINANCIAL ASSETS	60,538	73,544
UNRECOGNISED CREDIT EXPOSURES		
Club loan guarantees	5,286	8,820
Other third party guarantees	8,900	-
TOTAL UNRECOGNISED CREDIT EXPOSURES	14,186	8,820
TOTAL CREDIT EXPOSURES	74,724	82,364

All loans to racing clubs are fully secured. Refer to note 20 for further disclosure on the guarantees.

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:

GROUP	2014 %	2014 \$000	2013 %	2013 \$000
<i>Trade and other receivables</i>				
<i>(Industry & geographical concentrations)</i>				
Australian betting agencies	22.0%	1,784	21.3%	2,486
New Zealand retail TAB outlets	15.8%	1,279	6.9%	814
Other New Zealand trade and other receivables	62.2%	5,100	71.8%	8,413
TOTAL TRADE AND OTHER RECEIVABLES	100.0%	8,163	100.0%	11,713

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-.

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 2014

17. 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 \$000	Foreign currency 000	NZD \$000
2014				
Australian dollars	2,032	2,259	1,446	1,607
2013				
Australian dollars	2,909	3,352	915	1,055

Foreign currency sensitivity analysis

As at 31 July 2014, if the New Zealand dollar had strengthened/weakened against the Australian dollar by 10% (2013: 10%), with all other variables held constant, the net profit before distributions would have been \$66k (2013: \$0.2m) lower/higher as a result of lower/higher foreign exchange gains. There would also be a corresponding decrease/increase in equity. This sensitivity analysis is calculated on those asset and liability balances held as at 31 July 2014 and does not reflect the foreign exchange movements during the course of the year.

Forward foreign exchange contracts

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

There are no forward foreign exchange contracts outstanding as at 31 July 2014 (2013: 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 17(e) above.

As at 31 July 2014, if the interest rates had increased/decreased by 0.5% (50 basis points), with all other variables held constant, the net profit before distributions would have been \$0.3m (2013: \$0.3m) 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 2014

18. RELATED PARTIES

Other transactions with racing codes and racing clubs

In addition to distributions, the NZ Racing Board has numerous transactions with the racing codes and racing clubs.

Outlined below are the material transactions including distributions.

		TRANSACTION VALUE		BALANCE OUTSTANDING	
		2014 \$000	2013 \$000	2014 \$000	2013 \$000
New Zealand Greyhound Racing Association	Distributions paid and payable	(21,313)	(20,674)	(789)	(1,552)
	On-course venue services, trackside operations and radio services	2,929	2,739	-	-
	Other services provided by the NZ Racing Board	770	635	75	48
Harness Racing New Zealand	Distributions paid and payable	(40,151)	(39,477)	(2,683)	(2,626)
	On-course venue services, trackside operations and radio services	4,417	4,716	-	-
	Other services provided by the NZ Racing Board	665	718	35	34
New Zealand Thoroughbred Racing	Distributions paid and payable	(72,618)	(71,939)	(333)	(2,028)
	On-course venue services, trackside operations and radio services	7,128	7,713	-	-
	Other services provided by the NZ Racing Board	286	197	133	14
Racing Integrity Unit	Funding	(5,712)	(5,529)	(476)	(260)
	Other services provided by the NZ Racing Board	53	72	271	252

Refer to note 22 for further information regarding RIU. The balance outstanding with RIU relates to certain payments made to RIU employees, for which RIU will reimburse the NZ Racing Board. All related party transactions between RIU and NZ Racing Board are eliminated on consolidation into the NZ Racing Board Group.

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

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 31 JULY 2014

18. RELATED PARTIES (cont)

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.

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

		TRANSACTION VALUE		BALANCE OUTSTANDING		RELATIONSHIP
		2014 \$000	2013 \$000	2014 \$000	2013 \$000	
New Zealand Rugby Union	National sports organisations grants	(998)	(957)	-	-	Graham Cooney, a Board member of the NZ Racing Board, is also a Board member of the New Zealand Rugby Union.
New Zealand Thoroughbred Racing	Distributions paid and payable	(72,618)	(71,939)	(333)	(2,028)	Greg McCarthy, a Board member of the NZ Racing Board, is also a Board member of the New Zealand Thoroughbred Racing.
	On-course venue services, trackside operations and radio services	7,128	7,713	-	-	
	Other services provided by the NZ Racing Board	286	197	133	14	
New Zealand Greyhound Racing Association	Distributions paid and payable	(21,313)	(20,674)	(789)	(1,552)	Mauro Barsi, a Board member of the NZ Racing Board, is also a Board member of the New Zealand Greyhound Racing Association.
	On-course venue services, trackside operations and radio services	2,929	2,739	-	-	
	Other services provided by the NZ Racing Board	770	635	75	48	
Racing Integrity Unit	Funding	(5,712)	(5,229)	(476)	(260)	Glenda Hughes, Chair of the NZ Racing Board, is also Chair of the Racing Integrity Unit.
	Other services provided by the NZ Racing Board	53	72	271	252	

Compensation of key management personnel

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

	GROUP AND PARENT	
	2014 \$000	2013 \$000
Board Members' fees	327	307
Chief Executive and Leadership team:		
Salaries and other short-term employee benefits	3,116	4,301
Termination payments	-	613
TOTAL KEY MANAGEMENT PERSONNEL	3,443	5,221

The NZ Racing Board considers key management personnel as the Board members, the Chief Executive and the Leadership team of the NZ Racing Board. The salaries and other short-term employee benefits include the salaries received and accrued bonuses for the members of the Leadership team.

As at 31 July 2014, the NZ Racing Board Leadership team included five members (2013: 10 members). The salaries and other short-term employee benefits include two employees that were either terminated, resigned or held 'acting' positions (2013: six).

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 31 JULY 2014

19. COMMITMENTS

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 profit or loss on a straight-line basis over the lease term, within Premises and Equipment Expenses. Any sublease income is recognised as Other Income.

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

	GROUP		PARENT	
	2014 \$000	2013 \$000	2014 \$000	2013 \$000
Within one year	5,742	5,806	5,712	5,767
Later than one year but no later than five years	12,218	6,531	12,184	6,468
Later than five years	4,740	83	4,740	83
TOTAL OPERATING LEASE COMMITMENTS	22,700	12,420	22,636	12,318

The NZ Racing Board leases buildings under operating leases, as a lessee, 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.

The NZ Racing Board sold the Petone Head Office building on 7 August 2014. The building has been treated as an asset held for sale in these financial statements. The 9 year operating lease with Oyster Property Group Limited has been included in this note.

Three 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 \$0.3 million (2013: \$0.4 million) are expected to be received.

For the year ended 31 July 2014, \$6.8 million was recognised as an expense within premises and equipment expenses in profit or loss in respect of operating leases (2013: \$6.3 million). Rent received on properties owned by the NZ Racing Board was recognised as rent income during the year was \$0.3 million (2013: \$0.2 million).

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:

	GROUP AND PARENT	
	2014 \$000	2013 \$000
Within one year	19,507	12,698
Later than one year but no later than five years	36,160	20,157
Later than five years	35,029	-
TOTAL OTHER NON-CANCELLABLE OPERATING COMMITMENTS	90,696	32,855

Other non-cancellable commitments

The broadcasting contract with NZ Live Limited, disclosed in note 22, gives rise to a finance lease for the NZ Racing Board for the broadcasting equipment. The finance lease asset and corresponding liability will be recognised on 1 September 2014, for a value of \$3.9 million, payable over 10 years. This commitment is in addition to the amounts disclosed above.

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 31 JULY 2014

20. CONTINGENT LIABILITIES

Where the NZ Racing Board enters into financial guarantee contracts to guarantee the indebtedness of third party entities, the NZ Racing Board considers these to be insurance arrangements under NZ IFRS 4 *Insurance Contracts* and accounts for them as such. A liability is recognised when it becomes probable that the NZ Racing Board will be required to make a payment under the guarantee. If it becomes probable, the NZ Racing Board will recognise an expense and corresponding liability based on estimates of future cash flows under the contract. The NZ Racing Board assesses at the end of each reporting period whether its recognised liability is adequate in comparison to the estimates of future cash flows under the contract. If that assessment shows that the carrying amount of the liability is inadequate, the entire deficiency shall be recognised in profit or loss.

Club loan guarantee

On 5 February 2009, the NZ Racing Board provided a guarantee to the BNZ in relation to RACE Inc to the value of \$5.3 million plus up to two years interest and the costs of collection (2013: \$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.

Other third party guarantees

On 31 October 2013, the NZ Racing Board provided a guarantee to Westpac Bank in relation to NZ Live Limited to the value of \$8.9 million. In addition, on 1 April 2014, the NZ Racing Board also provided a guarantee to Windsor Park Leasing Limited over the payments of the NZ Live Limited leased premises for the total lease value of \$4.2 million. As at 31 July 2014, the amount payable under this guarantee had reduced to \$4.1 million.

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 31 JULY 2014

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

	GROUP		PARENT	
	2014 \$000	2013 \$000	2014 \$000	2013 \$000
NET (LOSS)/PROFIT AFTER DISTRIBUTIONS	(1,429)	266	(1,410)	220
NON-CASH ITEMS				
Depreciation expense	10,707	11,050	10,508	10,832
Amortisation expense	2,393	2,024	2,393	2,024
Increase in provision for doubtful debts	39	55	39	55
Impairment	203	928	203	928
Other non-cash items	(260)	(58)	(257)	(68)
TOTAL NON-CASH ITEMS	13,082	13,999	12,886	13,771
ITEMS CLASSIFIED AS INVESTING/FINANCING ACTIVITIES				
Net gain on sale of property, plant and equipment	(149)	(787)	(139)	(787)
Net finance income	(2,154)	(2,016)	(2,133)	(1,998)
TOTAL ITEMS CLASSIFIED AS INVESTING/FINANCING ACTIVITIES	(2,303)	(2,803)	(2,272)	(2,785)
MOVEMENT IN CURRENT ASSETS				
Decrease / (increase) in trade and other receivables	1,306	(46)	1,334	(297)
(Increase) / decrease in other assets	(981)	1,125	(1,082)	1,346
TOTAL MOVEMENT IN CURRENT ASSETS	325	1,079	252	1,049
MOVEMENT IN LIABILITIES				
Increase in trade and other payables	1,119	913	1,235	1,020
Increase in customer betting account deposits	2,876	55	2,876	55
Increase / (decrease) in other financial liabilities	532	(807)	532	(808)
Decrease in taxes payable	(68)	(4,348)	(147)	(4,228)
Increase / (decrease) in provisions	60	20	165	(279)
TOTAL MOVEMENT IN LIABILITIES	4,519	(4,167)	4,661	(4,240)
NET CASH PROVIDED BY OPERATING ACTIVITIES	14,194	8,374	14,117	8,015

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 31 JULY 2014

22. GROUP ENTITIES

The consolidated financial statements incorporate the assets and liabilities of all material entities controlled by the NZ Racing Board as at 31 July 2014 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.

The NZ Racing Board controls an entity when the NZ Racing Board is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Controlled entities are consolidated from the date on which control is transferred to the NZ Racing Board. Subsidiaries are deconsolidated from the date that control ceases. Balances between controlled entities, including inter-entity transactions, are eliminated.

Interest in subsidiaries

The NZ Racing Board Group includes the following subsidiaries;

	Principle place of business	Reporting date	Interest 2014 (%)	Interest 2013 (%)
Betting Accounts and Vouchers Trust	New Zealand	31 July	100	100
RIU	New Zealand	31 July	25	25

Consolidation of 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 is the Trustee of the Trust. The deposits held in trust are not available for use by the NZ Racing Board in the ordinary course of business.

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. The carrying amounts of the assets and liabilities in the consolidated financial statements reflect the restrictions that apply.

Consolidation of RIU

As at 31 July 2014, the NZ Racing Board has consolidated RIU. The NZ Racing Board holds a 25% interest in RIU, provides all the income for this company and has control over the allocation of resources within the company. The remaining 75% interest in RIU (non-controlling interest) is owned equally by the three Codes. RIU manages integrity services to the racing industry and is responsible for investigating and prosecuting breaches of the Rules of Racing.

The NZ Racing Board has controlled RIU for financial reporting purposes since July 2011, however has not consolidated previously as the impact on the NZ Racing Board financial statements was not material. The NZ Racing Board has retrospectively consolidated RIU from July 2011 for comparative purposes in these financial statements and the impact of this is included in the non-controlling interest reserve in equity.

Unconsolidated structured entities

In October 2013 the NZ Racing Board entered into a 10 year service contract with NZ Live Limited ("NZ Live") for NZ Live to provide broadcasting services to the NZ Racing Board from 1 September 2014. Integral to this new contract is the upgrade from current standard definition broadcast vision ("SD") to high definition ("HD"). This contract supersedes the existing broadcasting agreement with Avalon Holdings Limited which terminates on 30 September 2014.

As part of the agreement with NZ Live, the NZ Racing Board has entered into two guarantee arrangements, as follows:

- A guarantee to Westpac over the NZ Live unsecured loan facility of \$8.9 million.
- A guarantee to Windsor Park Leasing Limited over the payments of the NZ Live leased premise with a nominal value at 31 July 2014 of \$4.1 million.

The NZ Racing Board has no ownership or future ownership rights of NZ Live. However, the NZ Racing Board does have potential exposure to losses through the bank and lease guarantees noted above. Additionally, the NZ Racing Board is the sole customer. Other than in the event of default by NZ Live on the bank or lease payments, NZ Racing Board does not have the power to control the operations of NZ Live.

NZ Live is a start up enterprise and did not have the capital to obtain a loan facility without a financial guarantee. NZ Live will provide key broadcasting services required by the NZ Racing Board and accordingly the NZ Racing Board has provided the financial guarantee.

NZ Racing Board has not recorded any interest in NZ Live in the financial statements as at 31 July 2014 in the form of income or assets. NZ Racing Board's maximum exposure to loss is the total value of the guarantees noted above. As at 31 July 2014, it was not probable that the NZ Racing Board will be required to make a payment under the guarantee and as such no liability has been recorded in the Group's financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 31 JULY 2014

23. CHANGE IN COMPARATIVES

During the year the NZ Racing Board made a change to how industry initiatives are accounted for. Certain income and costs relating to industry initiatives have been accounted for previously within Distributions in the profit or loss. These costs have been agreed to be incurred by the NZ Racing Board on behalf of the Codes. For financial reporting purposes these income and expenses should be included within income and operating expenses, as these are income and costs incurred by the NZ Racing Board.

Comparatives have been restated to conform to the current year's presentation. The impact of the change in treatment on the 2013 Parent financial statements is as follows:

- Other Income increased by \$0.4 million
- Staff Expenses increased by \$0.7 million
- Premises and Equipment Expenses increased by \$0.6 million
- Other Expenses increased by \$1.1 million
- Distributions decreased by \$2.0 million

The following provides a summary reconciliation from net profit before distributions reported in the 2013 financial statements, to the net profit after financial reporting changes. These changes include the industry initiatives as described above and the consolidation of RIU.

	GROUP 2013 \$000	PARENT 2013 \$000
NET PROFIT BEFORE DISTRIBUTIONS PREVIOUSLY REPORTED	144,109	144,109
Consolidation of RIU	(5,468)	15
Industry initiatives and other industry costs	(1,960)	(1,960)
NET PROFIT BEFORE DISTRIBUTIONS	136,681	142,164

24. BUDGET INFORMATION

PARENT

	Actual 2014 \$000	Unaudited Budget 2014 \$000	Unaudited Variance 2014 \$000
INCOME			
Net betting revenue	255,526	251,105	4,421
Net gaming revenue	15,015	15,786	(771)
Other income	41,811	48,125	(6,314)
TOTAL INCOME	312,352	315,016	(2,664)
TURNOVER RELATED EXPENSES	47,032	48,829	1,797
OPERATING EXPENSES			
Premises and equipment expenses	28,540	26,763	(1,777)
Staff expenses	56,462	53,967	(2,495)
Other expenses	37,547	40,239	2,692
TOTAL OPERATING EXPENSES	122,549	120,969	(1,580)
TOTAL EXPENSES	169,581	169,798	217
NET PROFIT BEFORE DISTRIBUTIONS	142,771	145,218	(2,447)

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 31 JULY 2014

24. BUDGET INFORMATION (cont)

The following is a reconciliation of the Net Profit budget reported in the 2013-16 Statement of Intent to the Net Profit budget after financial reporting changes:

	Unaudited Budget 2014 \$000
BUDGETED NET PROFIT BEFORE REPORTING CHANGES	149,113
Industry initiatives and other industry costs	(3,895)
BUDGETED NET PROFIT AFTER REPORTING CHANGES	145,218

Budget comparative information (unaudited)

Core betting performance has been strong with betting turnover ahead of budget by \$1.6 million (0.1%). The increase in margin from a budget of 13.7% to 13.9%, in addition to the increase in turnover, drove the Net Betting Revenue to \$255.5 million. This increase is despite a decrease in VIP activity.

Gaming Net Revenue is below budget mainly due to the unexpected closure of Courtenay Place in August 2013 due to the Seddon earthquakes.

Export Income is down \$2.8 million (13.4%) on budget, primarily driven by the high NZD to AUD exchange rate. In the 2014 budget, intersegment Gaming revenue was included within Other Income. This income has been reclassified in 2014 to Other Operating Expenses to eliminate the intersegment expense. This results in a negative variance to budget for Other Income of \$2.9 million and an offsetting positive variance against Other Operating Expenses and an overall nil impact on Net Profit.

Turnover Related Expenses are below budget due to a reclassification of Problem Gambling Levy of \$2.5 million to Net Betting Revenue and Net Gaming Revenue. This is offset by National Sporting Organisation grants being higher than budget by \$0.6 million.

Premise and Equipment Expenses are above budget mainly due to higher depreciation and amortisation than budget (approximately \$1.0 million).

Staff Expenses are higher than budget as a result of the \$1.1 million restructuring provision as part of the relocation of the broadcasting operations to Auckland. Additionally, Staff Expenses have been impacted by the key initiative projects.

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 31 JULY 2014

24. BUDGET INFORMATION (cont)

PARENT

	Actual	Unaudited Budget	Unaudited Variance
	2014	2014	2014
	\$000	\$000	\$000
CURRENT ASSETS			
Cash and cash equivalents	19,437	29,135	(9,698)
Trade and other receivables	8,380	10,125	(1,745)
Non-current assets held for sale	5,063	-	5,063
Other financial assets	29,511	33,022	(3,511)
Other current assets	1,764	1,728	36
TOTAL CURRENT ASSETS	64,155	74,010	(9,855)
NON-CURRENT ASSETS			
Property, plant and equipment	41,496	40,195	1,301
Intangible assets	15,843	8,183	7,660
Other financial assets	3,000	1,913	1,087
TOTAL NON-CURRENT ASSETS	60,339	50,292	10,047
TOTAL ASSETS	124,494	124,302	192
CURRENT LIABILITIES			
Trade and other payables	24,077	21,260	2,817
Customer betting account deposits and vouchers	19,525	17,897	1,628
Other financial liabilities	5,900	6,840	(940)
Taxation payable	2,746	7,514	(4,768)
Provisions	3,010	160	2,850
TOTAL CURRENT LIABILITIES	55,258	53,672	1,586
NON-CURRENT LIABILITIES			
Other financial liabilities	32	635	(603)
Provisions	1,139	140	999
TOTAL NON-CURRENT LIABILITIES	1,171	774	397
TOTAL LIABILITIES	56,429	54,446	1,983
TOTAL EQUITY	68,065	69,855	(1,790)
TOTAL LIABILITIES AND EQUITY	124,494	124,302	192

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 31 JULY 2014

24. BUDGET INFORMATION (cont)

Budget comparative information (unaudited)

Cash and Cash Equivalents are below budget by \$9.7 million due to the significant investment in key initiative projects during the year, which were not included within budget, as stated in the Statement of Intent 2013-16. Other Financial Assets have also been impacted, with term deposits down slightly, as cash was required to fund project spend.

Non-Current Assets Held for Sale relating to the sale of the Petone Head Office was not budgeted. This represents an unbudgeted movement from Property, Plant and Equipment.

Intangibles Assets are above budget by \$8.8 million mainly due to the capital investment in Mobile App and the Enterprise Service Bus.

The Taxation Payable balance is significantly below budget due to the release in 2013 of tax provisions which were evaluated after the 2014 budget was approved, to be in excess.

Total Provisions are higher due to the unbudgeted restructuring provision relating to the relocation of the broadcasting operations to Auckland and the unbudgeted Undistributed Gaming Net Profit provision.

25. SUBSEQUENT EVENTS

Subsequent to reporting date, the sale of the Petone Head Office building was concluded for a sales price of \$10.5 million. Settlement, title transfer and the subsequent gain on sale was recognised on 7 August 2014.



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 29 to 70, which comprise the statements of financial position as at 31 July 2014, the statements of profit or loss and comprehensive income, statements of changes in equity and statements 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 both the New Zealand Racing Board and the Group. The Group comprises the New Zealand Racing Board and the entities it controlled at 31 July 2014 or from time to time during the financial year.

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 give a true and fair view of 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 and the Group'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 and the Group'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.





Independent Auditors' Report

New Zealand Racing Board

We have no relationship with, or interest in, the New Zealand Racing Board or its controlled entities other than in our capacities as auditors and providers of other assurance and advisory services. These services have not impaired our independence as accountants of the New Zealand Racing Board and the Group.

Opinion

In our opinion, the financial statements on pages 29 to 70:

- (i) comply with generally accepted accounting practice in New Zealand;
- (ii) comply with International Financial Reporting Standards; and
- (iii) give a true and fair view of the financial position of the New Zealand Racing Board and the Group as at 31 July 2014, and their financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

We also report in accordance with Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 31 July 2014:

- (i) we have obtained all the information and explanations that we have required; and
- (ii) in our opinion, proper accounting records have been kept by the New Zealand Racing Board as far as appears from an examination of those records.

Restriction on Distribution or Use

This report is made solely to the Board Members, 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 signature of 'PricewaterhouseCoopers' in a cursive script.

Chartered Accountants
6 October 2014

Wellington



PUNTERS SPENT \$32.3 MILLION

DURING **FOOTBALL WORLD
CUP 2014**, MAKING IT THE TAB'S
BIGGEST EVER BETTING EVENT

DIRECTORY

WELLINGTON (HEAD OFFICE)

106-110 Jackson Street
Petone
Lower Hutt 5012
PO Box 38899
Wellington Mail Centre
Lower Hutt 5045
Phone: + 64 4 576 6999
Fax: + 64 4 576 6942
Web: www.nzracingboard.co.nz

NORTHERN REGION

TAB Centre
Level 3
60 Stanley Street
Auckland Central 1010
PO Box 37649
Parnell
Auckland 1151
Phone: +64 9 347 2600

WAIKATO/BAY OF PLENTY

391 Te Rapa Road
Hamilton 3200
PO Box 10501
Te Rapa
Hamilton 3241
Phone: +64 7 838 8800

CENTRAL REGION

690 Tremaine Avenue
Palmerston North
PO Box 637
Palmerston North 4440
Phone: +64 6 357 2054
Fax: +64 6 357 2845

CANTERBURY/WEST COAST/ MARLBOROUGH REGION

5 Moule Street
Addington
Christchurch 8024
Private Bag 4746
Christchurch 8140
Phone: +64 3 338 1420
Fax: +64 3 338 1424

OTAGO/SOUTHLAND REGION

30 Teviot Street
Dunedin 9012
PO Box 600
Dunedin 9054
Phone: +64 3 455 9710
Fax: +64 3 455 9715

SOLICITOR

Minter Ellison Rudd Watts
Wellington

AUDITOR

PricewaterhouseCoopers
Wellington

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Wellington



www.tab.co.nz

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