

Annual Report **2003**



the board of directors



Barry Neville-White
Vice-President



Tom Jamison
Board Member



Bill Kermod
Board Member



Peter Rosanowski
Board Member



Rick Bettle
President



Peter Vela
Board Member



Jim Leach
Transition General Manager



Contents

President's report	2
Transition general manager's report	4
Record turnover	5
Racing report	6
The big day out	7
Sporting life	8
Leading the field	9
Lifting our game	10
A good look	12
From the horse's mouth	13
Back at the stables	14
Audit report	15
Financial statements	16
Directory	40





president's report

Undoubtedly the biggest event of the year for the TAB was the passing of the Racing Act in March.

It heralded the disappearance of the Totalisator Agency Board on 31 July 2003, after 53 years of providing racing betting, and more recently sports betting, to the public of New Zealand. The Totalisator Agency Board and the Racing Industry Board amalgamated on 1 August to form the new New Zealand Racing Board – a milestone we have worked towards and awaited for years.



The TAB brand is being retained for all the many, varied and growing numbers of products and services we offer our customers. Those customers will reap the benefits of the new, streamlined New Zealand Racing Board behind the flagship TAB, but many may barely know of the Board's existence.

Also on the horizon is the Gambling Bill, which will open doors to other forms of gambling. This is exciting, but it also gives the TAB further cause to take greater responsibility for addressing community concern over the level of problem gambling.

At turf level, there has been some progress in club led rationalisation and this process will continue, with the clubs themselves needing to take the lead. Those that have, are beginning to reap the benefits. Those that resist, fear they could lose their identity. The reality is one of "rationalise or struggle". They need not lose name nor club, but can share resources and make efficiencies. The clubs that have had the courage to consider the wider picture, face a more certain future.

The industry is continuing to seek from Government, a more equitable level of taxation compared with other forms of gambling. We had hoped that the current review of taxation would have supported this but clearly the Government is still not sympathetic to our case.

The TAB has exposed our product to a wider world of customers; by sending more New Zealand race coverage to Australia, and increasing betting and broadcast coverage of more overseas events. Coupled with more bet types (and further products in the pipeline for release soon), these factors have seen a record turnover this year, for both racing and sport.

As we have noted in the past, technology is now making it very easy for overseas betting operators to attract our customers' money in increasing proportions. This is a very worrying trend for the future as these operators return nothing to the industry for the racing product. If New Zealand is to retain a viable industry we need the support and commitment of our domestic customers.

So this last year as the TAB, before we become the New Zealand Racing Board, has been another challenging but successful year. My thanks go to the people who made this happen – the staff of the TAB and the members of the Board.

Warm thanks are also due to the Minister for Racing Damien O'Connor who has been supportive and helpful, as indeed have all the Ministers I have worked with over the last eight and a half years.

However I feel I should offer a very special thanks to Annette King who worked with such enthusiasm and achieved so much in concert with the Prime Minister and other colleagues in just three years. The Gambling Bill which moves the TAB into a new era not possible under the old legislation, and the changing of the Racing Act, were all set in train during her period as Minister.

On its own the new Act will not solve racing's problems but it will provide a much better structure to meet those challenges.



Rick Bettle
President

transition general manager's report

The highly competitive international environment that we now operate in is widely accepted as a growing challenge for the industry.

Of particular concern is the increasing encroachment of overseas betting operators into our domestic market.

Every racing jurisdiction in the world is confronting this very serious issue which threatens the long term viability of a domestic industry with all the implications that this brings to breeding, exporting etc.

This season we have successfully introduced a number of new betting products and upgraded others. The thirst of our customers for more and faster access to critical decision making information is a challenge that we are constantly addressing with technology.

The quality of information presented by the print media remains an ongoing concern particularly in view of the large cost that this now imposes on the industry.

Major structural changes in the Australian wagering market signal the emergence of one or two "super" TABs with larger pools and more cost effective critical mass.

The forthcoming changes to gaming legislation in New Zealand will see the industry having a direct presence in the gaming machine market with potential significant financial benefits.

These new opportunities also bring new responsibilities with regard to the social consequences of gambling and we will be playing a proactive role in ensuring that our customers' well being is protected as much as we can.

It is fitting that in the last year of our existence we have achieved record turnover for both racing and sport. After a 53 year heritage of passion and commitment to the industry the TAB now ceases to be an independent entity and merges with the Racing Industry Board to form the much awaited New Zealand Racing Board.

I would like to thank all of the TAB staff who have worked so tirelessly in difficult and uncertain conditions throughout the transition to the new Board.

Finally my sincere thanks to the TAB Board Members for their support and guidance which has been greatly appreciated.



Jim Leach
Transition General Manager



record turnover

The TAB played out its last year posting record-breaking turnover across the board.

In August, Sunline raced in the Mudgway Stakes at Hastings. A huge crowd, estimated at 10,000, gathered to watch her last ever race in New Zealand, boosting on course turnover for the day by 100%.

And so began the first year that betting on course rose on the previous, since 1988/89. This was assisted by the launch of Percentage Betting, on course only, in December.

The 2003 Interdominion Series being run at Addington was a major contributor to the increase. Grand Final Night at Addington reached \$800,000, the second-highest on course figure of the year.

Off course turnover reached a record \$1,011 million, largely due to the benefits of increased racing product being offered to customers.

The growth in sports betting continued with turnover surging to \$117.7 million, an increase of

12% on the previous year. The record-breaking increase for sports is more significant when you consider that the figures for the previous year were boosted by the highly successful Soccer World Cup.

That event had a continuing spin-off as customers who signed up to the TAB website for the big soccer event, continued to use the Web channel for other events. Sports bettors show a preference for the website once they have used it, and it also becomes a regular information source for them.

So it was another outstanding year for the TAB website with total betting turnover of \$86 million. The Internet channel grew by 40% with sports continuing to lead the way. Sports bettors wagered \$33.2 million across more than 550,000 transactions on their favourite sports events, up a healthy 57% on the previous year. Race betting also showed good growth, with turnover topping \$52.6 million up \$12.1 million on the previous year, a gain of 30%.



racing report

The rise in turnover was partly driven by a concerted effort to increase the quantity of product the TAB puts before its customers.



Moonee Valley harness races moved to Thursday night (from Saturday) in March, in line with New Zealand harness racing.

Also “last race” time was extended by 30 minutes, Sunday to Wednesday. Late in the season Thursday nights were extended to midnight, to accommodate

Moonee Valley feature events. Kiwis in Melbourne were not disappointed – Pullover Brown and Classical ran the quinella in both the Victorian Oaks and Australian Oaks.

On Trackside, where possible, gaps between races were reduced from 15 minutes to an average of 10, with product sourced from overseas to utilize the time.

An upgrade to the Jetbet system, this year enabled the TAB to increase the number of races held under a single meeting code, from a maximum of 10 to 20.

And Kiwi greyhound Cecelia Lloyd showed what he was made of when he went to Adelaide in October for the Sister City Cup. Conditions on the flight over left the dog with internal bleeding, and scratching from the event was considered. But he recovered in 12 hours, took to the track and won the trophy.



the big day out

Media Puzzle was the first horse from the British Isles to win the Melbourne Cup since Vintage Crop's 1993 victory.

He was ridden by Damien Oliver – whose brother had been killed in a racing accident the week before. Damien went home to Perth for the funeral, and thought things through at length before coming back to ride. He dedicated his win to brother Jason's memory.

Media Puzzle was the stablemate of 1993 winner Vintage Crop. The secret to his success may have been his lead-up race – a rarity for a northern-hemisphere horse – in the Geelong Cup, which he won brilliantly.



By Cup Day, Media Puzzle had everything going for him – trainer Dermot Weld, a terrific performance under Australian conditions, a light weight, a good draw at the barrier, and a top Australian jockey. He went from odds of \$50 to raceday favourite.

Irish and English horses ran first, third and fourth, and the only Australasian horse to get amongst them was Mr. Prudent, placed second.

The Victoria Racing Club has been calling for northern hemisphere nominations for some time now, and they have been talked up while underperforming until this year. Media Puzzle's success is expected to draw more Anglo-European interest, and raise the game for Australasian racing.

Turnover for the day set a new record of \$13.4 million.



sporting life

The All Black tour to England, France and Wales was a bonus at the end of the year.



After losing out to soccer in the previous year, rugby regained its number one slot by turning over a massive \$32.3 million, a record by over \$4 million, for which the New Zealand Rugby Union will have received in excess of half a million dollars.

It was inevitable that rugby would quickly re-establish itself as number one. The build-up to the Rugby World Cup and a highly competitive and attractive Super 12 enabled customers to enjoy the national game.

Rugby League also continued to grow in popularity. There's no doubt that the Warriors were largely responsible for this momentum. League turnover increased by nearly \$4 million to \$22.8 million.

We expected soccer betting to drop back after the euphoria of the World Cup but with the English Premier League leading the way the turnover was still a most satisfactory \$16 million.

A major winner, and a sport showing massive growth both in popularity and betting is basketball. The Tall Blacks led the charge at the World Championships and the NBA was again very well supported. These factors combined to see turnover more than double to \$12.8 million.

Reinvesting in the New Zealand sporting codes that the TAB sells bets on, is not only a legal requirement, but also a question of partnership and principle. The TAB returned \$2 million to the sporting codes this year.

leading the field

Bet values increased; the average bet value of a Trifecta is now around the \$7 mark and Percentage Bets averaged around \$11–12.

Percentage Betting is the first new TAB product to have taken the field since the major overhaul of the TAB's bet-selling platform. This exciting new product was eagerly awaited, customers liked it and it performed well. It offers a foretaste of the flexibility and power of the updated technological system.

Its key selling point is that customers can choose how much to spend e.g. \$10, \$20 or \$50 on a Trifecta, or Treble, then get the appropriate percentage based on horses selected. They pick how many runners they want to back, nominate them, name their price, and the computer works out the percentages.

Because bettors can pick more runners in a single bet, the odds of success rise, and so does their spending. Bet values increased; the average ticket value of a Trifecta is now around the \$7 mark and Percentage Bets averaged around \$11 to \$12.

Concerns that the pool sizes for Trifectas and Trebles would be eroded, have happily proven unfounded; pool sizes for Trifectas have increased about 4%. Average dividends are unchanged.

This product was a winner right from its initial on course only launch in December; and continued to find favour with off course bettors when launched in May. From May to the end of July, it accounted for around 20% of Trifecta and Treble turnover.



lifting our game

The TAB has undertaken many initiatives to ready itself for the new era.

As the TAB waited for the Racing Act 2003 to take effect, and the Gambling Bill to pass into law, it was not sitting on its hands. Both pieces of legislation will significantly change the environment in which the new combined Board operates, bringing greater flexibility and freedom. The Gambling Bill also provides significant new opportunities for racing to move into the gaming machine market.



The TAB has undertaken many initiatives to ready itself for the new era. Retail has undertaken a review to raise the standards of service in its 380-plus social outlets nation wide. They have put together a comprehensive package of standards and incentives to bring TAB facilities in bars, clubs and hotels up to the calibre of flagship retail outlets and agencies.

This was advised to the retail network in April and May, and social outlets have just begun to receive their initial grading against which the Pay for Performance programme will judge them early next year. This spells out criteria from the number of teletext and television screens, to the size and quantity of signage, and will rank social outlets platinum, gold, silver or bronze with consequent adjustments in their commission rates.

In parallel and underpinning this initiative is the rollout of a new training programme for all retailers, to lift standards overall. While this won't go live until next year, it has been a major focus for the TAB Retail team.

Most South Island retail customers are now being served from the new C-MAX betting terminals. These were installed by the Technical Services team at a cost of \$1.4 million for the 200 units.

Technical Services also revamped Touch Tone telephone betting in December. Greater emphasis was placed on the Next Race to Run and Each Way bets, and processes were speeded up, shortening call duration overall. The impact was immediate. Touch Tone betting turnover increased by 35% to \$61 million.

And the team enhanced the Risk Management System that supports Fixed Odds Betting. This will enable the future development of more varied and complex betting products for both racing and sport.

Meanwhile in Phonebet, elite customers were given their own dedicated VIP Customer Line with improved service. Their calls are answered as a priority, they are able to top up their betting accounts via credit card, and they get free track conditions and scratchings information from the Phonebet VIP line.

Improvements to services at www.tab.co.nz have continued throughout the year with back end improvements in speed and efficiency, plus the introduction of online Percentage Betting. Features were added such as Runner Search so bettors could look up the history of any runner stored on the database, expanded racing form available in PDF format, and the live audio feed extended to include all races.

Customers' thirst for information from the TAB site is reflected in the statistics. Unique visitor numbers averaged around 90,000 per month. During the busy month of November these visitors downloaded 300,000 PDFs (information documents) – a record for the TAB site. Melbourne Cup day was the busiest single day on the TAB website with over 40,000 visitors viewing well over 500,000 pages on the day.

In April Skybet was launched – a new channel for betting on racing and sport via the remote control for viewers of the Sky digital television service. This leading edge technology was developed jointly with Sky television and is a first in this part of the world. The technology utilizes the custom built software within the Sky set-top box to enable account-holding viewers to bet on the next available race or a selected menu of sports betting options. While still in its infancy, Skybet is turning over around \$100,000 per week, and the future for this medium looks bright.

a good look

Trackside was highly successful this year in the Mercedes Awards for racing broadcasting, held annually by New Zealand Thoroughbred Racing.

Andre Neill, Luke Radich and Steve Davis were the finalists for Broadcaster of the Year; Andre took the award for the second year running.

This result, and a two-hour show covering the awards, were well received by Trackside's audience.

Trackside also handed out the plaudits. At the July Harness Awards the Trackside Media Appreciation Award went to driver Mark Jones. Mark could not be present – he was in Canada at the time, winning the World Drivers' Championship.

The Trackside Media Appreciation Award in Gallops was awarded to trainer Andrew Scott.

The second season of the Sky Sport – Trackside collaboration, Trackchat, was successful. It airs on Sky Sport, bringing viewers entertaining and informative coverage of the racing industry. Trackside's Lance O'Sullivan and Steve Davis appear with Sky Sport host Andrea McVeigh.

Clockwise from top left are Lance O'Sullivan, Andre Neill, Steve Davis and Luke Radich.



from the horse's mouth

If there's a trend at the TAB, it is the growing use and power of electronic and automated media throughout the organisation.

This is illustrated in the growth of website and Touch Tone use, and customers' movement from the flagship retail counters to account-holding for Phonebetting, and on into the electronic channels. Customers are voting with their feet – or fingers – and choosing to use a variety of channels, some live and some automated. As a result, the TAB is more economically able to offer greater capacity for selling bets.

The TAB currently has about 100,000 account customers. It is easy to think that the TAB's relationship with them is impersonal, that they are just a sea of numbers. But one TAB initiative is personalising relationships with them, and finding out what they like and don't, straight from the horse's mouth.

Customer Relationship Management, which is part of the ambit of the Marketing team, aims to build one-to-one relationships with the individuals in that sea of customers, via a groundbreaking Web email tool. It enables the customer relationship manager to send emails to every account customer who provided an email address when they registered.

Just under half the TAB's account customers receive regular weekly emails previewing the coming weekend in racing and sport and linking to odds and form on the TAB website. The philosophy is that the more odds and information customers get, the more bets they place.

In this age of spam filters, account customers have been unambiguously welcoming of the contact. Initially, some asked to be taken off the mailing list – but in the last two months there have been no requests to unsubscribe, and many customers have mailed back to say, "Thanks. My email address is changing, please keep sending me this material."

Gathering the addresses is crucial, and during the year the TAB doubled the number of email addresses held for the 100,000 account holders, to 45,000; this figure grows constantly.

The communication is two way. Selected high-turnover-generating customers were polled on their likes, dislikes, and desired changes to service. This kind of survey would typically have taken over a month using traditional methods. The survey was complete in 24 hours – the software even graphed the results. As a result of their feedback, VIP Phonebet lines, and Phone Funds – a credit card method for VIP customers to top up their betting accounts – were introduced.

The next step was to ask those customers what they thought of the TAB; and whether they felt they were valued customers – compared with a year ago. Again the survey was very quick, and the results were overwhelmingly positive, with perceptions rising across the board.





back at the stables

Just as the TAB prepares to raise its game for customers in the coming era, it is also making preparations in house, with initiatives to benefit agents, customers, managers and staff.

One of the effects of the responsible gambling legislation will be to allow many more TABs and racing clubs to have gaming machines on their premises (subject to local government approval), and keep the income they generate. While this is expected to generate more turnover, it brings an increased responsibility to address the issue of responsible gambling.

The Human Resources and Retail teams have worked hard this year to put the TAB in the vanguard of the gaming industry on this issue. A Responsible Gambling Charter was drafted. There was research into the best methods to promote the issue to retailers and customers alike. Retail agents were polled on the kind of help they required.

This survey resulted in a series of half day workshops for all agents, and soon, all TAB staff, to ensure that everyone throughout the business is fully appraised of problem gambling – its risks, impacts, how problem gamblers may be identified, recommended means of intervention and sources of support.

It is only the beginning and this will continue to be a priority area. In its 2003 Business Plan, the TAB stated its aim is to be a leading provider of responsible gambling services compared with other providers within New Zealand and world-wide.

The TAB became one of the first New Zealand businesses to give salaried staff the freedom to access payroll and other HR details, under a password protected pc-based system. It aims to give staff greater autonomy and managers easier access to information.

Via Human Resources, the TAB also provided staff with access to free, confidential, professional assistance and counselling, under an Employee Assistance Programme (EAP). Staff can seek the services of the independent organisation EAP Services Ltd for help with personal and work issues which can affect work performance, from marital or family difficulties and drug and alcohol problems to workplace conflicts. Staff and management alike have appreciated its introduction.

audit report

**Deloitte
Touche
Tohmatsu**

To the readers of the financial statements of the Totalisator Agency Board (TAB)

We have audited the financial report on pages 20 to 39. The financial report provides information about the past financial performance of the TAB and its financial position as at 31 July 2003. This information is stated in accordance with the accounting policies set out on pages 25 to 27.

Board Members' Responsibilities

The Board Members are responsible for the preparation, in accordance with New Zealand law and generally accepted accounting practice, of a financial report which gives a true and fair view of the financial position of the TAB as at 31 July 2003 and of the results of its operations and cash flows for the year ended 31 July 2003.

Auditor's Responsibilities

It is our responsibility to express an independent opinion on the financial report presented by the Board Members and report our opinion to you.

Basis of Opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial report. It also includes assessing:

- the significant estimates and judgements made by the Board Members in the preparation of the financial report, and
- whether the accounting policies are appropriate to the TAB's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain reasonable assurance that the financial report is free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial report.

Other than in our capacity as auditor we have no relationship with or interests in the TAB.

Unqualified Opinion

We have obtained all the information and explanations we have required.

In our opinion:

- proper accounting records have been kept by the TAB as far as appears from our examination of those records, and
- the financial report on pages 20 to 39:
- complies with generally accepted accounting practice in New Zealand, except where specifically required in terms of the Racing Act 1971, and
- gives a true and fair view of the financial position of the TAB as at 31 July 2003 and the results of its operations and cash flows for the year ended on that date.

Our audit was completed on 21 October 2003 and our unqualified opinion is expressed as at that date.

Deloitte Touche Tohmatsu

Chartered Accountants
Wellington, New Zealand

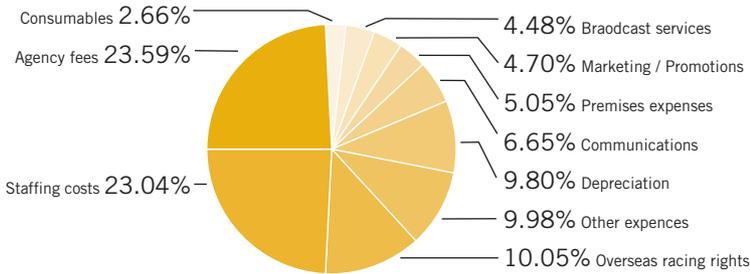




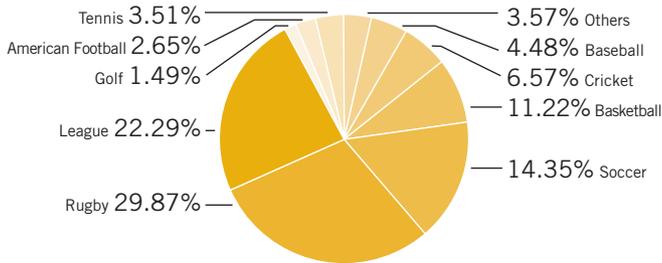
financial statements

financial
statements

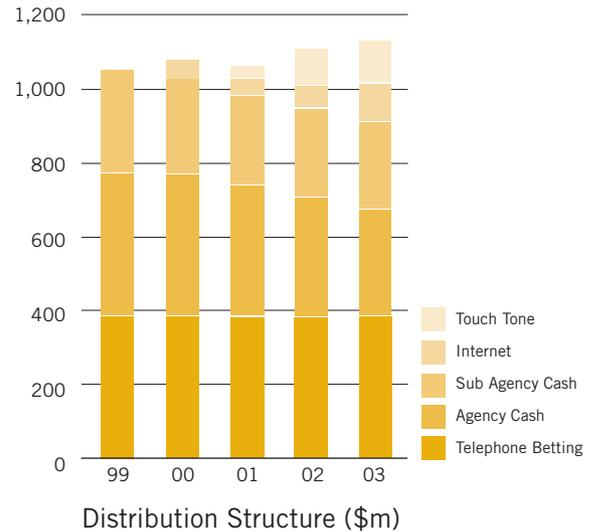
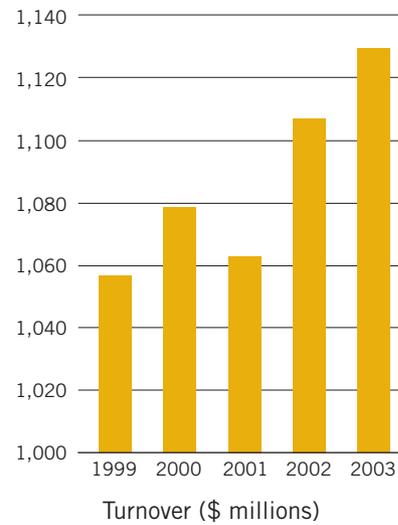
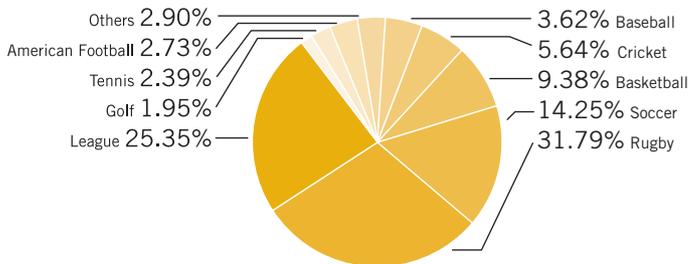
Cost of Operations



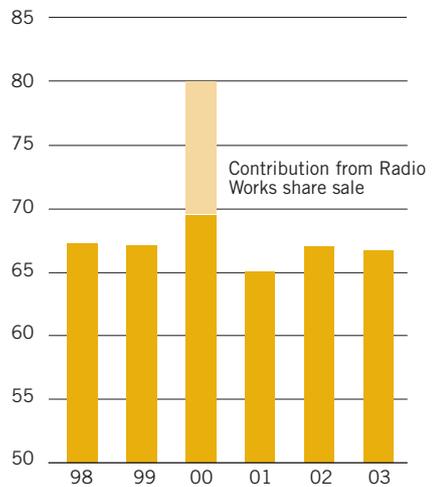
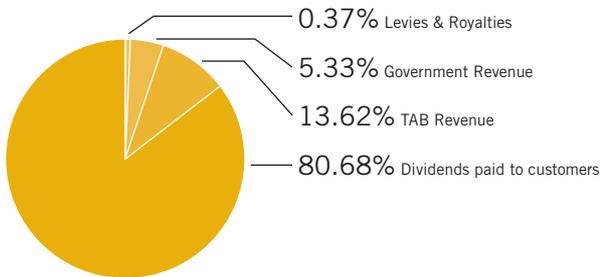
Analysis of Sport Turnover



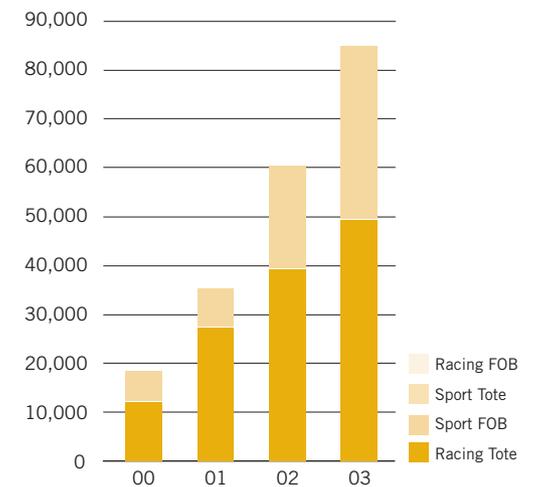
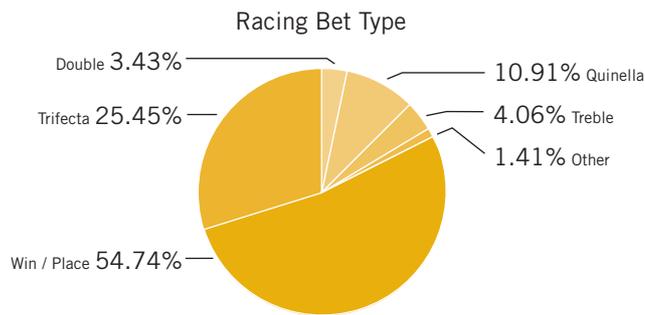
Analysis of Sport Levies



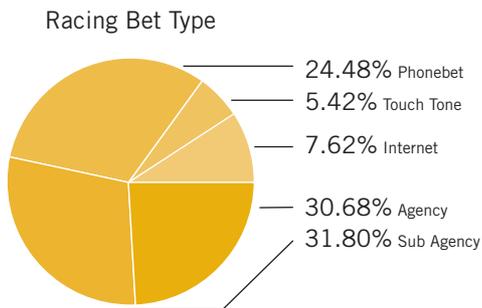
Analysis of the Betting Dollar



Contribution to the NZ Racing Industry (\$millions)



Internet Turnover (\$m)



5 YEAR FINANCIAL REVIEW

	2003	2002	2001	2000	1999
	\$m	\$m	\$m	\$m	\$m
Turnover	1,129.3	1,107.4	1,065.2	1,077.9	1,056.0
Net betting income	153.8	148.5	145.4	147.5	143.3
Racing services income	4.5	4.4	4.5	4.7	4.9
Other income	4.5	5.2	5.2	4.8	3.3
Cost of operations	97.6	94.3	94.8	92.4	89.2
Club product and					
NZRIB costs/payout	63.4	58.5	59.2	61.1	58.0
Operating surplus	1.9	5.3	1.1	3.5	4.3
Radio Works profit	-	-	-	11.4	-
Asset Revaluations	(0.6)	(6.7)	-	-	-
Net surplus	1.3	(1.4)	1.1	14.9	4.3
Distributed surplus	0.4	1.0	-	14.6	3.1

STATEMENT OF BETTING PERFORMANCE MEASURES

	2003	2002
1. Financial		
Turnover		
- Racing (\$m)	1014.9	1,002.5
- Sport (\$m)	114.4	104.9
Financial contribution to New Zealand Racing Industry (\$000)		
-from operations	67,399	67,589
- one off revaluation/reserve movements	-	(3,349)
Total	67,399	64,240
ratio to total turnover (%)	6.0	6.1
ratio to local racing turnover (%)	9.8	10.0
2. Other		
Computer up time (%)	99.99	99.98
Average annual sales per cash outlet (\$)	1,841,543	1,913,622
(excluding self-service terminals)		
Average annual sales per phone account (\$)	3,730	3,169
Average annual sales per internet account (\$)	3,941	2,151
Average bet value (\$)	7.75	7.94
Turnover per capita (\$)	422.02	401.71
(Adults 18 and over)		
Share of retail spending (%)	2.3	2.4
(Off-course and On-course combined)		
Approximate number winning tickets paid out	18,593,000	18,260,000
Local meetings covered by Trackside	775	766

ANALYSIS OF FINANCIAL CONTRIBUTION

For the year ending 31 July 2003

	Race Betting Local \$000	Race Betting Overseas \$000	Sports Betting \$000	Race Day Services \$000	Total \$000
Operating Surplus	2,816	-	-	431	3,247
Operating surplus	2,816	-	-	431	3,247
Racing Industry levies	1,025	1,072	38	-	2,135
Club product payment	41,369	11,763	6,685	-	59,817
NZRIB costs	2,200	-	-	-	2,200
Operating Return.	47,409	12,836	6,723	431	67,399

5 YEAR TURN OVER ANALYSIS

	2003	2002	2001	2000	1999
	\$m	\$m	\$m	\$m	\$m
OFF-COURSE RACING					
Local					
Galloping	369.9	373.6	388.1	410.7	424.5
Harness	216.3	214.2	223.6	229.5	231.1
Greyhounds	84.5	88.0	87.5	86.4	87.2
	670.7	675.8	699.2	726.6	742.8
Overseas					
Galloping	282.8	276.2	254.8	248.3	213.5
Harness	39.0	32.5	26.3	16.4	19.0
Greyhounds	4.9	0.6	0.2	0.3	-
	326.7	309.3	281.3	265.0	232.5
Six Pack/Pick 6					
Galloping	4.5	4.2	3.2	2.9	4.2
Harness	8.4	9.2	9.4	10.9	8.0
Greyhounds	1.4	1.4	2.4	3.4	4.3
	14.3	14.8	15.0	17.2	16.5
Fixed Odds	3.2	2.6	2.7	2.6	3.0
Total Racing	1,014.9	1,002.5	998.2	1,011.4	994.8
SPORT					
Fixed Odds	110.5	102.2	63.5	62.0	57.0
Totalisator	3.9	2.7	3.5	4.5	4.2
Total Sport	114.4	104.9	67.0	66.5	61.2
TOTAL	1,129.3	1,107.4	1,065.2	1,077.9	1,056.0
By channel					
Internet	84.9	60.9	35.6	18.1	6.8
Telephone Betting	337.6	339.4	340.5	353.0	349.2
Agency Cash	346.5	374.5	385.1	410.3	414.5
Sub-Agency Cash	359.1	332.6	304.0	296.5	285.5
Interactive TV	1.2	-	-	-	-
	1,129.3	1,107.4	1,065.2	1,077.9	1,056.0
ON-COURSE					
Galloping	48.1	46.6	48.2	50.4	55.1
Harness	26.6	25.3	26.4	26.8	31.0
Greyhounds	2.9	2.9	3.1	3.4	3.2
	77.6	74.8	77.7	80.6	89.3
Intertrack *					
Galloping	8.7	8.4	9.0	8.8	9.3
Harness	2.4	3.1	2.8	2.8	3.2
Greyhounds	0.9	0.5	1.3	1.2	0.5
	12.0	12.0	13.1	12.8	13.0

* Intertrack betting is included in the On-course totals.

The breakdown to codes relates to those clubs where bets were sold.

Statement of Financial Performance

For the years ending 31 July

2002 \$000		notes	2003 \$000	Budget 2003 \$000
Revenue				
1,107,415	Betting turnover	1	1,129,306	1,120,850
(894,736)	Dividends paid to customers	2	(911,055)	(907,147)
(64,157)	Betting deductions	3	(64,405)	(62,807)
148,522	Net betting revenue	4	153,846	150,896
9,572	Other income	6	9,021	9,366
158,094	Total operating revenue		162,867	160,262
Expenditure				
22,057	Agency fees		23,028	23,112
4,367	Broadcast services		4,369	4,502
6,452	Communications		6,487	6,809
2,310	Consumables		2,596	2,852
10,060	Depreciation	15	9,569	10,812
1,684	Equipment maintenance		1,483	1,606
4,026	Marketing and promotions		4,589	3,640
8,861	Overseas racing rights		9,806	9,414
2,908	Property rentals & equipment leases		2,789	2,839
1,868	Premises expenses		2,209	1,732
22,401	Staffing costs		22,485	21,676
1,658	Transport costs		1,748	1,655
5,559	Other operating expenses	7	6,445	5,174
94,211	Total operating expenses		97,603	95,823
63,883	FINANCIAL RETURN		65,264	64,439
Represented by:				
55,302	Club product payments – local		58,677	56,941
1,048	Club product payments – international		1,140	1,685
–	Premier marketing support		1,387	1,400
2,200	NZRIB costs		2,200	1,200
5,333	Operating surplus		1,860	3,213
(6,741)	Abnormal item – asset write down	8	(560)	–
(1,408)	Net surplus (deficit)		1,300	3,213

The Capital Retention and Available for Distribution amounts are now disclosed in the Statement of Movements in Equity rather than in the Statement of Financial Performance, as they have been in previous years.

67,589	Operating financial return generated for the Racing Industry	22	67,399	66,537
6.10%	Return as a percentage of turnover	22	5.97%	5.94%
45.51%	Return as a percentage of net betting revenue	22	43.81%	44.20%

Statement of Movements in Equity

For the years ending 31 July

2002 \$000		notes	2003 \$000	Budget 2003 \$000
81,568	Equity at beginning of year		77,861	80,917
	Available Surplus Reconciliation			
(1,408)	Net surplus (deficit)		1,300	3,213
1,700	Release of capital fund	9	–	–
–	Release of future system sales reserve	10	69	–
(1,011)	Capital retention from net surplus	10	(938)	–
1,592	Release of asset revaluation reserve	10	–	–
100	Release of FOB sports reserve	10	–	–
973	Available Surplus		431	3,213
	Reserve Movements			
2,848	On course development levy		1,268	1,241
(4,237)	Amounts applied to on course betting development account		(4,457)	(4,131)
(3)	Amounts applied to future system sales reserve		–	–
66	Interest on development accounts		818	524
(1,700)	Release of capital fund	9	–	–
–	Release of future system sales reserve	10	(69)	–
1,011	Capital retention from net surplus	10	938	–
(1,592)	Release of asset revaluation reserve	10	–	–
(100)	Release of FOB sports reserve	10	–	–
(3,707)			(1,502)	(2,366)
	Distributions to Industry			
(73)	Surplus payable to clubs		(431)	(20)
(900)	Surplus paid and payable to NZRIB		–	(3,193)
(973)			(431)	(3,213)
77,861	Equity at end of year		76,359	78,551

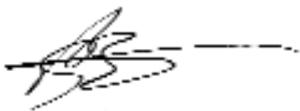
The accompanying accounting policies and notes form part of these financial statements.

Statement of Financial Position

as at 31 July

2002 \$000		notes	2003 \$000	Budget 2003 \$000
	Equity			
–	Capital fund	9	–	1,700
77,861	Reserves	10	76,359	76,851
77,861	Total equity		76,359	78,551
	Represented by:			
	Current assets			
1,547	Cash and bank	11	347	1,000
33,451	Investments	12	36,623	26,740
3,032	Receivables and prepayments	13	3,503	1,625
–	Properties held for sale	14	4,837	–
491	Inventories		282	364
38,521			45,592	29,729
	Non-current assets			
4,661	Investments	12	5,639	4,639
67,096	Fixed assets	15	54,673	71,817
71,757			60,312	76,456
110,278	Total assets		105,904	106,185
	Current liabilities			
22,713	Payables	16	23,948	19,676
8,731	Club product and NZRIB costs		5,166	4,745
900	NZRIB distribution payable		–	3,193
73	Clubs distribution payable		431	20
32,417			29,545	27,634
77,861	Net assets		76,359	78,551

The Board of Directors of the New Zealand Totalisator Agency Board authorises these financial statements for issue on 21 October 2003. Signed for and on behalf of the Board,



Rick Bettle
President



Tom Jamison
Board Member

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

Statement of Cash Flows

For the years ending 31 July

2002 \$000		notes	2003 \$000	Budget 2003 \$000
Operating activities				
Inflows				
1,107,415	Betting turnover		1,129,306	1,120,850
4,447	Racing services income		4,508	4,423
1,313	Current dividends & betting deposits		1,636	261
882	Interest received		1,699	2,394
2,682	Other income		2,921	3,073
1,116,739			1,140,070	1,131,001
Outflows				
1,795	Sporting body royalties		2,061	1,913
894,736	Dividends paid		911,055	907,147
64,408	Payments to suppliers		68,301	64,743
20,485	Payments to employees		20,001	20,524
56,932	Payments to racing industry		67,835	67,119
22,188	Net GST		22,482	24,448
36,386	Duty paid		37,405	36,599
1,096,930			1,129,140	1,122,493
19,809	Net cash from operating activities	21	10,930	8,508
Investing activities				
Inflows				
1,137	Disposal of fixed assets		167	–
6,889	Sale and maturity of investments		–	–
8,025			167	–
Outflows				
7,868	Purchase of fixed assets		7,346	12,582
4,672	Purchase of investments		1,000	–
12,540			8,346	12,582
(4,515)	Net cash used in investing activities		(8,179)	(12,582)

Statement of Cash Flows cont'd

For the years ending 31 July

2002 \$000		notes	2003 \$000	Budget 2003 \$000
Financing activities				
Inflows				
66	Interest received		818	524
66			818	524
Outflows				
–	NZRIB distribution		900	900
38	Clubs distribution		73	73
72	Overseas racing rights	10	89	75
218	Software support	10	192	–
343	Intertrack linking	10	343	343
671			1,597	1,391
(605)	Net cash used in financing activities		(779)	(867)
14,689	Net increase / (decrease) in cash held		1,972	(4,941)
20,309	Add opening cash brought forward		34,998	32,681
34,998	Ending cash carried forward		36,970	27,740
Represented by:				
1,547	Cash and bank balances		347	1,000
33,451	Bank deposits and corporate notes		36,623	26,740
34,998			36,970	27,740

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

Statement of Accounting Policies

For the years ending 31 July 2003

Entity Reporting

These financial statements report on the operations of the New Zealand Totalisator Agency Board. The Racing Act 1971 requires disclosure of budgeted amounts. The budget, as approved by the Board and communicated to the NZRIB, is disclosed in these financial statements.

Statutory Base

The New Zealand Totalisator Agency Board is a statutory body established pursuant to the Gaming Amendment Act 1949. These financial statements have been prepared in accordance with the Racing Act 1971 and its subsequent amendments.

Going Concern

The Board of Directors has adopted the going concern basis for the preparation of the financial statements. The Racing Act 2003 was passed into law on 10 March 2003. Under The Racing Act 2003 the TAB and the NZ Racing Industry Board cease to exist as at 31 July 2003. From 1 August 2003 the two entities are amalgamated to form the New Zealand Racing Board. Under the act all assets and liabilities of the two entities are transferred to the NZ Racing Board. For these reasons the financial statements have been prepared on a going concern basis.

Comparative Numbers

Where necessary, certain prior year numbers have been realigned to match current year classifications for comparative purposes.

Accounting Policies

The financial statements are prepared in accordance with New Zealand generally accepted accounting practice, except where specifically directed to do otherwise in compliance with The Racing Act 1971. The accounting policies that materially affect the

measurement of financial performance, financial position and cash flows are set out below.

Revenue

Descriptions of specific terms stated in the Statement of Financial Performance are as follows:

- Betting turnover – refers to turnover generated from off course betting only.
- On course racing services income – refers to income the TAB derives from providing on course raceday services to racing clubs.

Revenue is recognised at the time the betting event takes place

Goods and Services Tax (GST)

The Statement of Financial Performance and Statement of Cash Flows are prepared so that all elements are GST exclusive. The GST component in betting turnover represents the GST payable on betting deductions and net betting revenue. All items in the Statement of Movements in Equity and Statement of Financial Position are stated net of GST, with the exception of accounts receivable and payable, which include GST as invoiced.

Fixed Assets and Depreciation

Except for land and buildings, fixed assets are stated at cost less accumulated depreciation, unless a permanent diminution in value below cost occurs, in which case fixed assets are valued at the lower value. Land and Buildings have been revalued in accordance with FRS 3, Accounting for Property, Plant and Equipment, by registered valuers to their fair value. Depreciation is calculated on a straight line basis to allocate the cost of the assets over their estimated useful lives, which are reviewed annually by the TAB. The current depreciation rates are as follows:

Statement of Accounting Policies – cont'd

For the years ending 31 July 2003

Buildings/Improvements	1% – 2.5%
Leasehold/Freehold Fitouts	10% – 15%
Plant	10% – 20%
Motor Vehicles	20%
Broadcasting Equipment	10%
Broadcasting Licences	5%
Computer Installation	15%
Other Computer equipment and applications	20% – 50%

Depreciation on Racing Services fixed assets is treated as a charge against the On course Betting Development Account.

Surplus Payable to Clubs

Section 83B of the Racing Act 1971 provides for the payment of on course racing services profits to clubs associated with the operations of the On course totalisator. From 1 August 1983, the TAB has calculated the “profit” as the surplus arising from On course racing services operations before interest on fixed capital and depreciation.

Financial Instruments

Financial instruments carried on the Statement of Financial Position include cash and bank balances, investments, receivables and payables. These instruments, with the exception of investments, are stated at their estimated fair value.

In some cases the TAB may enter into foreign currency forward contracts. The purpose of these instruments is to reduce exposure to fluctuations in foreign currency by establishing the rate at which the assets or liabilities will be settled. Because these hedging contracts have the effect of offsetting gains or losses on the underlying transactions in the physical market, there is no recognition in the financial statements until maturity of the contracts.

Investments

Investments are carried at cost. Premiums and discounts on debt securities are amortised from purchase to maturity on a yield to maturity basis. Within the Statement of Financial Performance, interest income is recognised on an accrual basis, while dividend income is recognised when declared.

Inventories

Inventories are stated at the lower of net realisable value and cost, as determined on the weighted average basis.

Dividend Reserves

These accounts are established in accordance with section 93(3) of the Racing Act 1971. Transfers to these accounts comprise amounts set aside from the dividend pools of pick 6, six pack and sports pools betting. Funds accumulated in these accounts are used exclusively for the purpose of supplementing the dividend pool on some occasions when the same form of betting is offered subsequently.

Income Tax

The Totalisator Agency Board is exempt from income tax pursuant to section CB4(1)(i)(i) of the Income Tax Act 1994.

Employee Entitlements

Employee entitlements to salaries and wages, annual and long service leave and other benefits are recognised when they accrue to employees. This includes the estimated liability for annual and long service leave provided for as a result of services rendered by employees up to balance date.

Statement of Accounting Policies – cont'd

For the years ending 31 July 2003

Foreign Exchange

Transactions denominated in a foreign currency are converted at the exchange rate at the date of the transaction. Foreign currency bank balances held at year end are translated at exchange rates current at year end.

Exchange differences and hedging costs arising on contracts entered into as hedges for specific expenditure are deferred until the date of settlement, at which time they are included in the measurement of the purchase.

Statement of Cash Flows

Cash

Cash is considered to be Cash on Hand, Current Accounts in banks net of bank overdrafts and corporate notes. In accordance with FRS 10, Statement of Cash Flows, Government Stock and Corporate Bonds are excluded.

Netting

Current dividends and betting deposits have been presented net as transactions are settled over a short period of time.

Changes In Accounting Policies

There have been no significant changes in accounting policies during the year. All policies have been applied on a basis consistent with those used in the prior year.

Notes to the Financial Statements

For the years ending 31 July

1. Betting Turnover

	2003 \$000	Budget	
		2003 \$000	2002 \$000
Racing – Totalisator (Tote)	1,011,644	1,005,000	999,862
Racing – Fixed odds betting (FOB)	3,208	3,000	2,635
Sports – Totalisator (Tote)	3,943	3,250	2,667
Sports – Fixed odds betting (FOB)	110,511	109,600	102,251
Turnover including GST	1,129,306	1,120,850	1,107,415
GST	22,804	24,448	22,270
Turnover net of GST	1,106,502	1,096,402	1,085,145

2. Dividends Paid to Customers

	2003 \$000	Budget	
		2003 \$000	2002 \$000
Racing – Totalisator	809,578	804,992	800,495
Racing – Fixed odds betting	3,095	2,760	2,387
Sports – Totalisator	2,729	2,265	1,866
Sports – Fixed odds betting	95,653	97,130	89,988
	911,055	907,147	894,736

3. Betting Deductions

	2003				Budget		2002
	Racing		Sport		Total	Total	
	Tote \$000	FOB \$000	Tote \$000	FOB \$000	Total \$000	Total \$000	
Racing industry levies (see note 5)	829	38	–	–	867	857	858
Sporting body royalties	–	–	235	1,826	2,061	1,913	1,795
On-course development levy (see note 8)	1,268	–	–	–	1,268	1,241	2,848
Totalisator duty	34,604	20	216	2,565	37,405	36,599	36,386
GST	21,147	13	135	1,509	22,804	24,448	22,270
	57,848	71	586	5,900	64,405	62,807	64,157

Notes to the Financial Statements cont'd

For the years ending 31 July

4. Segmental Contribution to Net Betting Revenue

	2003 \$000	Budget	2002 \$000
		2003 \$000	
Racing – Totalisator	144,218	142,963	140,711
Racing – Fixed odds betting	42	128	137
Sports – Totalisator	628	490	393
Sports – Fixed odds betting	8,958	6,963	7,281
	153,846	150,544	148,522

5. Racing Industry Levies

	2003 \$000	Budget	2002 \$000
		2003 \$000	
Racing – Totalisator			
As required by section 42 of the Racing Act 1971, the following industry levies were deducted from bets received and paid to the NZRIB.			
Stakes subsidy levy	522	479	507
Amenities levy	307	336	312
	829	815	819
Racing – Fixed odds betting			
Turnover levy	32	30	26
Gross margin levy	6	12	13
	38	42	39
	867	857	858

Notes to the Financial Statements cont'd

For the years ending 31 July

6. Other Income

	2003	Budget	2002
	\$000	2003	\$000
		\$000	\$000
Interest on:			
Bank deposits & debt securities	2,436	2,394	1,732
Development account charges	(821)	(524)	(66)
Dividends	–	–	2
On course racing services income	4,508	4,423	4,447
Advertising revenue	592	745	674
Licence fees	320	–	260
Capital gain from disposal of freehold properties	1	–	707
International Racing	1,629	2,022	1,475
Miscellaneous	356	306	341
	9,021	9,366	9,572

7. Operating Expenditure

	2003	Budget	2002
	\$000	2003	\$000
		\$000	\$000
Other operating expenses include:			
Auditors' remuneration:			
Auditing services – 2002	22	–	57
Other services – 2002	32	–	42
Auditing services – 2003	65	57	–
Board members' remuneration	140	138	129
Cash handling fees	573	564	595
Insurance	400	751	632
Loss on fixed asset disposals	803	200	638
Other expenses	1,904	1,244	1,541
Problem gambling levy	1,117	1,142	690
Rebates	153	135	151
Branch operating costs	180	123	227
Bad & doubtful debts	34	–	–
Foreign exchange losses	71	–	121
Software support	951	820	736
	6,445	5,174	5,559

Notes to the Financial Statements cont'd

For the years ending 31 July

8. Asset Write Down

TAB property, plant and equipment are reported in accordance with FRS 3 "Accounting for Property, Plant and Equipment". CB Richard Ellis (registered valuers) valued land and buildings on a fair value basis at 31 July 2002. This resulted in a reported net asset write down of \$6.741 million.

In conjunction with a nationwide audit of the TAB's fixed asset register, the carrying values of plant and equipment were reassessed as at 31 July 2003. This resulted in a net asset write down of \$560,000.

9. Capital Fund

	2003 \$000	2002 \$000
Balance at beginning of year	–	1,700
Transfer to statement of movements in equity	–	(1,700)
Balance at end of year	–	–

The Capital Fund was established under the Gaming Amendment Act 1949 to provide a fund to meet costs and expenses incurred by the TAB in establishing the initial branches, agencies and staff training. It was funded from a 0.5% levy charged on off course and on course betting during the first five years of the TAB's existence.

The TAB Board reviewed the necessity for this reserve during fiscal 2002 and resolved to release these funds for the benefit of the Industry.

10. Reserves

	2003 \$000	2002 \$000
Balances		
Off-course betting development account	57,308	56,084
Racing services betting development account	19,051	21,708
Future systems sales reserve	–	69
Asset realisation reserve	–	–
Fixed odds sports betting reserve	–	–
	76,359	77,861

Analysis

Off-course betting development account		
Balance at beginning of year	56,084	55,436
Interest on average surplus/(deficit)	286	(363)
Capital retention *	938	1,011
Balance at end of year	57,308	56,084

* Amount retained in accordance with Section 80 (2), Racing Act 1971, for capital expenditure purposes.

Notes to the Financial Statements cont'd

For the years ending 31 July

	2003 \$000	2002 \$000
Racing services betting development account		
Balance at beginning of year	21,708	22,668
On course development levy	1,268	2,848
Interest on average surplus	532	429
Overseas racing rights	(89)	(72)
Intertrack linking costs	(343)	(343)
Software support	(192)	(218)
Depreciation	(3,833)	(3,604)
Balance at end of year	19,051	21,708

Future systems sales reserve

Balance at beginning of year	69	72
Transfer to Statement of Financial Performance	–	(3)
Transfer to Statement of Movements in Equity	(69)	–
Balance at end of year	–	69

This reserve was established to provide for costs associated with efforts to generate potential sales of TAB developed betting systems.

The TAB Board has reviewed the necessity for this reserve during fiscal 2003 and resolved to release these funds for the benefit of the Industry.

Asset realisation reserve

Balance at beginning of year	–	1,592
Transfer to Statement of Movements in Equity	–	(1,592)
Balance at end of year	–	–

This reserve was initially established from profits arising from assets sales and was reclassified as a revenue reserve in 1989. The TAB Board reviewed the necessity for this reserve during fiscal 2002 and resolved to release these funds for the benefit of the Industry.

Fixed odds sports betting reserve

Balance at beginning of year	–	100
Transfer to Statement of Movements in Equity	–	(100)
Balance at end of year	–	–

The Fixed Odds sports betting reserve was established under Section 99R of the Racing Act 1971, at a level determined by the NZRIB. The TAB Board, with the approval of the NZRIB Board, determined that this reserve be released for the benefit of the Industry during fiscal 2002.

Notes to the Financial Statements cont'd

For the years ending 31 July

11. Cash and Bank

	2003 \$000	2002 \$000
Foreign currency betting accounts	292	538
Foreign currency bank accounts	119	249
NZ dollar bank accounts	(113)	751
On course settlements to be banked	49	9
	347	1,547

12. Investments

	2003		2002	
	Fair Value \$000	Carrying Value \$000	Fair Value \$000	Carrying Value \$000
Bank deposits	8,910	8,910	855	855
Corporate notes	27,870	27,713	32,802	32,596
Short term	36,780	36,623	33,657	33,451
Corporate bonds	5,860	5,639	4,774	4,661
Long term	5,860	5,639	4,774	4,661
Total	42,640	42,262	38,431	38,112

Effective interest rates at 31 July 2003 range between 5.15% and 7.50% (5.75% and 7.50% at 31 July 2002).

13. Receivables and Prepayments

	2003 \$000	2002 \$000
Trade debtors	738	738
Prepayments	473	1,089
Sundry debtors and receivables	1,144	599
Retail settlements due	1,169	606
Provision for doubtful debts	(21)	0
	3,503	3,032

Notes to the Financial Statements cont'd

For the years ending 31 July

14. Properties Held For Sale

The decision has been made by the board to divest the TAB of all its freehold property holdings. It is intended that all freehold properties will be sold, by either auction or tender, by 30 September 2003. In accordance with SSAP 17 these properties have been transferred from Fixed Assets to Current Assets and recorded at their "book value" as at 31 July 2003.

15. Fixed Assets

	2003				2002			
	cost /	accumulated	net book	current year	cost /	accumulated	net book	current year
	valuation	depreciation	value	depreciation	valuation	depreciation	value	depreciation
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Freehold land at valuation	2,590	–	2,590	–	4,697	–	4,697	–
Freehold buildings at valuation	8,383	84	8,299	111	11,635	–	11,635	223
	10,973	84	10,889	111	16,332	–	16,332	223
Freehold property alterations, fixtures, fittings and equipment	9,059	5,927	3,132	1,009	18,798	15,328	3,470	1,194
Leasehold property alterations, fixtures, fittings and equipment	10,361	6,683	3,678	1,432	12,390	7,184	5,206	1,643
Motor vehicles	3,259	2,219	1,040	246	3,293	2,161	1,132	240
Broadcasting	18,005	15,168	2,837	378	21,020	17,708	3,312	567
Computer installation	71,831	42,584	29,247	6,393	82,853	46,763	36,090	6,193
Assets under development	3,850	–	3,850	–	1,554	–	1,554	–
	127,338	72,665	54,673	9,569	156,240	89,144	67,096	10,060

Notes to the Financial Statements cont'd

For the years ending 31 July

16. Payables

	2003 \$000	2002 \$000
Dividend Reserve	1,729	1,085
Current unclaimed dividends	2,746	2,692
Telephone and betting deposits	9,849	8,910
Trade creditors	7,674	7,885
Annual and long service leave liability	1,950	1,781
Estimated self insurance liability	–	360
	23,948	22,713

Analysis – Dividend Reserve

Balance at beginning of year	1,085	627
Amounts retained from dividend pool	4,188	1,210
Amounts released to dividends	(3,544)	(752)
Balance at end of year	1,729	1,085

Analysis – Annual and long service leave liability

Balance at beginning of year	1,781	1,792
Leave earned by employees	1,422	1,473
Leave paid out to employees	(1,253)	(1,484)
Balance at end of year	1,950	1,781

This liability represents a provision for the leave earned but unpaid to employees as at 31 July 2003.

Notes to the Financial Statements cont'd

For the years ending 31 July

17. Commitments

Capital

Commitments for capital expenditure contractually obligated at 31 July 2003 and not provided for in these financial statements are \$509,400 (\$147,000 at 31 July 2002).

Lease

The TAB had the following commitments under all leases as at 31 July:

	2003 \$000	2002 \$000
Current	2,421	2,261
One to two years	1,428	1,364
Two to five years	1,273	1,349
Over five years	8	99

18. Contingent Liability

The Directors are not aware of any condition or situation as at balance date that would require the disclosure of a material contingent liability (\$nil at 31 July 2002).

19. Financial Instruments

The following financial assets and liabilities have been recognised in the financial statements.

	2003 \$000	2002 \$000
Receivables and prepayments	3,503	3,032
Investments	42,262	38,112
Cash and bank balances	347	1,547
Payables	(23,948)	(22,713)
Net carrying amount of recognised financial instruments	22,164	19,978

Credit risk

Credit risk is the risk that an outside party will not be able to meet its obligations to the TAB. Financial instruments which subject the TAB to credit risk consist principally of cash, investments and receivables. The TAB's policy is to hold investments with institutions that have a NZ Standard and Poors rating of no less than A2. Receivables do not have a concentration of credit risk due to the number and spread of customers in relationship to the size of the balance. Accordingly the TAB believes it has no significant concentration of credit risk.

Notes to the Financial Statements cont'd

For the years ending 31 July

Interest rate risk

Interest rate risk is the risk that interest rates will change, decreasing the return on investments. The spread of interest rates on the TAB's investments are presented in note 12. The following table identifies the periods in which interest rates are subject to review on financial assets and liabilities.

	2003 \$000				2002 \$000			
	Maturities (at carrying value)				Maturities (at carrying value)			
	Current	1–5 years	>5 years	Total	Current	1–5 years	>5 years	Total
Investments	36,623	5,639	–	42,262	33,451	3,161	1,500	38,112
Cash and bank balances	347	–	–	347	1,547	–	–	1,547
	36,970	5,639	–	42,609	34,998	3,161	1,500	39,659
Effective interest rate	5.34%	6.72%			5.93%	6.94%	7.50%	

Liquidity risk

Liquidity risk is the risk that funds will not be available to satisfy regular and irregular financial obligations. The TAB is required to settle the retention of Club Product and NZRIB costs on 31 October each year. This factor along with the proposed timing of capital expenditure in the new financial year requires the TAB to hold a significant amount of its investment portfolio on a short term basis at balance date.

Currency risk

Currency risk is the risk that the New Zealand dollar equivalent of amounts payable in foreign currencies will increase due to adverse movements in foreign exchange rates. The TAB enters into foreign currency forward exchange contracts in order to manage its exposure to fluctuations in foreign currency exchange rates on major items of expenditure. Total cover under forward exchange contracts at balance date was \$nil (\$nil at 31 July 2002). The TAB also holds foreign currency bank accounts and foreign currency denominated accounts with overseas betting agencies. Total foreign currency exposure at balance date was \$411,384 (\$787,045 at 31 July 2002).

Fair values

Fair values for investments are stated at market value, or where such valuation could not be obtained, investments are stated at the Directors' valuation.

	2003 \$000	2002 \$000
Recognised financial instruments		
Receivables and prepayments	3,503	3,032
Investments	42,640	38,431
Cash and bank balances	347	1,547
Payables	(23,948)	(22,713)
	22,542	20,297

Notes to the Financial Statements cont'd

For the years ending 31 July

20. Related Party Transactions

The New Zealand Racing Industry Board is considered to be a related party. The Transition General Manager of the TAB is also the Acting Chief Executive Officer of the NZRIB. Mr Rick Bettle and Mr Tom Jamison are members of the New Zealand Racing Industry and TAB's Boards of Directors. No amounts remain outstanding at 31 July 2003 (\$nil as at 31 July 2002). No amounts owed by related parties have been written off or forgiven during the year.

21. Statement of Cash Flows

Reconciliation of operating surplus to net cash from operating activities	2003 \$000	2002 \$000
Operating Surplus	1,860	5,333
Impact of non cash items:		
Depreciation	9,569	10,060
Future systems sales reserve	–	(3)
Amortisation of investment premiums	23	(819)
	9,592	9,238
Impact of movements in working capital items:		
Current unclaimed dividends	698	535
Telephone and betting deposits	939	776
Net GST	322	82
Industry liability*	(3,565)	1,428
Trade creditors and self insurance provision	(954)	(538)
Annual and long service leave	169	(11)
Interest accrual	61	35
Prepayments	616	(473)
Sundry receivables	(1,087)	448
Inventory	209	203
	(2,592)	2,485

Notes to the Financial Statements cont'd

For the years ending 31 July

	2003 \$000	2002 \$000
Items classified as investing activities:		
Loss on fixed asset disposals	803	643
Capital gain from disposal of freehold properties	(1)	(738)
	802	(95)
Items classified as financing activities:		
On course development levy	1,268	2,848
	1,268	2,848
Net cash from operating activities	10,930	19,809

* Note that the 10% retained out of Club Product Payment – Local, previously paid post balance date, was paid prior to 31 July 2003.

22. Financial Performance Targets

	2003 \$000	Budget 2003 \$000	2002 \$000
Betting turnover	1,129,306	1,120,850	1,107,415
Net betting revenue	153,846	150,544	148,522
Club product payment	59,817	58,626	56,350
Premier marketing support	1,387	1,400	–
NZRIB costs	2,200	1,200	2,200
Racing industry levies	867	857	858
On-course development levy	1,268	1,241	2,848
Operating surplus	1,860	3,213	5,333
Operating return generated for the racing industry from core activities	67,399	66,537	67,589
Return as a percentage of turnover	5.97%	5.94%	6.10%
Return as a percentage of net betting revenue	43.81%	44.20%	45.51%

The Senior Management Team

Jim Leach

Transition General Manager

Graham List

Acting Chief Financial Officer

Richard Ellerington

Acting General Manager, Operations

Philip Abraham

General Manager, Retail and Marketing

Warwick Wright

General Manager, Technical Services

Lynley Sinclair

Human Resources Manager

Paul Alpe

Audit Manager

Directory

National Office

106-110 Jackson Street,
Petone
PO Box 38899
Wellington Mail Centre
Phone: (04) 576 6999
Fax: (04) 576 6942

Northern Region

6 Mitchelson Street, Ellerslie
Private Bag 17902, Greenlane
Auckland
Phone: (09) 520 8200
Fax: (09) 52 8201

Hamilton Branch

391 Te Rapa Road
PO Box 10501, Te Rapa
Hamilton
Phone: (07) 838 8800
Fax: (07) 838 8801

Central Region

690 Tremaine Avenue
PO Box 637
Palmerston North
Phone: (06) 357 2054
Fax: (06) 357 2845

Southern Region

Moule Street, Addington
Private Bag 4746
Christchurch
Phone: (03) 338 1420
Fax: (03) 338 1424

Dunedin Branch

30 Teviot Street
PO Box 600
Dunedin 9015
Phone: (03) 455 9170
Fax: (03) 455 9715

Solicitors

Bell Gully, Wellington

Auditor

Deloitte Touche Tohmatsu

Bank

Bank of New Zealand,
Wellington





