

17 October 2018

Good afternoon,

As you will know, this coming Friday is the closing date to provide feedback to the Department of Internal Affairs (DIA) on John Messara's Review of the New Zealand Racing Industry, which was commissioned earlier this year by the Minister of Racing, Rt Hon Winston Peters.

This is an important opportunity to have a say on the future of our industry. The Messara Review has started a timely conversation to achieve real and lasting benefit to the industry and punters.

The Racing Board does not consider the status quo is acceptable. The racing and wagering industry in New Zealand is very different to the industry that the Racing Act was designed for in 2003. We support many of Mr Messara's recommendations although in a number of areas we differ from his conclusions, and want to ensure any solution is equitable for all three racing codes.

We have made our submission to the DIA and to ensure transparency have published this on our website. You can find the submission at www.nzrb.co.nz

NZRB update

By way of general update, we've finalised **our accounts** for 2017/18 and while the preparation of our Annual Report is currently underway, we will be announcing in due course that we exceeded our operating profit target, provided record distributions to the Codes and increased customer numbers significantly. This was despite anticipated revenue not coming through from Racefields.

I'm also pleased to let you know we recently approved over \$1 million of **additional stakes funding** from our Class 4 gaming activities to continue the \$1,500 Maiden Winners Harness bonus payment programme and support NZTR Heritage races, Dunstan Stayers and special interest races this year. There was also an enhancement to a variety of Greyhound races including the South Island Championships Final, Silver Collar and the creation of a new Australasian Final qualifying series.

The same fund also committed an additional \$140k to a range of **youth related initiatives**, while almost \$360k was provided to support the **improvement of race tracks**.

Our **total equity** position is currently around \$53 million and forecast to rise to \$94 million over the next three years with an appropriate level of cash reserves and liquidity being maintained. We have a modest **debt facility** of \$25 million available to support the investment in the Fixed Odds Betting (FOB) programme that will be repaid over the next few years and remain available for future investment, however the additional **\$12m for stakes** in last year and this year's seasons are not paid out of borrowings.

We chose to borrow to support the FOB investment because we need to support the maximum amount of stakes for the industry while also investing in the TAB business. The return on investment for FOB means any debt facility will be paid off within a few years. The Board has taken out a debt facility before, such as in 2011 to support the development of the Class 4 Gaming operation. This debt facility was paid off within a few years, and our Class 4 operation generated \$37.8 million in revenue last year.

The Board had previously forecast the amount of distributions to the industry based on our expectation we would be collecting and distributing racefields fees on the industry's behalf by now. The lack of racefields means the industry is likely to receive less distributions than we were originally expecting. We estimate the delay in **Racefields** means the industry is foregoing \$1 million per month in extra revenue. For that reason, we will continue advocating strongly for the urgent passage of racefields legislation on the industry's behalf.

There has been commentary in some quarters about the Board having or heading to a **\$200 million deficit**. There is no \$200 million deficit, and there will not be. Rather, the Board has exceeded its operating profit target for 2017/18 and as indicated in our latest Statement of Intent, is on track to deliver \$200 million in profit in 2019/20.

Key Initiatives and Major Projects Update

While the first couple of months of this year have been a bit disappointing in some areas, with abandoned race meetings and the betting behaviour of some of our elite punters having an impact on turnover, gross betting margins have been strong and we are ahead of last year. Gaming turnover continues to perform well and recently set a record for the month, up almost 10% on same period last year.

We have a number of key initiatives and major projects underway which I also wanted to update you on.

Many of you may have noticed an improvement in the quality of some of the **vision on Trackside**. A major initiative to modernise our presentation of racing content is well underway and our first new outside broadcast (OB) truck is now in use and filming some South Island equine meetings in High Definition (HD). Our second OB truck is due to arrive in New Zealand shortly and will go into use in the central region.

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I also wanted to update you on our **Fixed Odds Betting (FOB) programme**. The programme is a partnership with OpenBet and international bookmaker Paddy Power Betfair to give Kiwi punters what they want: betting products and services equal to anything in the world. Last week we provided a demonstration of the platform to several major punters who were very positive about the experience and the product offerings available when FOB goes live.

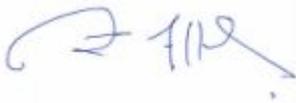
The programme is currently in the testing stage and we are currently working towards a target date of 5 December for launch, with a total implementation cost of \$40 million. The platform will only be launched when testing has shown it is ready, and we will be continuing to improve the platform post-launch. NZRB's normal betting platform stays functioning up until this time, meaning there is no impact for customers. Like all major technology programmes of this scale, implementation and cost adjustments are to be expected, however FOB will be delivered generating significant long-term financial benefits to the industry - in the region of \$30m per annum.

NZRB Feedback

This update may be surprising to some in our industry and contrary to much of the inaccurate and one-sided commentary in some publications. Such biased and uninformed commentary has been disappointing to our staff who work tirelessly for the industry, yet they are all absolutely committed to doing their very best for the good of the industry, and are completely focused on delivery of our initiatives and financial targets.

We always welcome your input and feedback and encourage you to send us an email if you have questions or concerns you would like to raise. We don't pretend to have all the answers but we will always be happy to respond and with the facts.

Yours sincerely,



John Allen
Chief Executive Officer

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