



ANNUAL GENERAL MEETING 2012

NEW ZEALAND
RACING BOARD
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ANNUAL GENERAL MEETING 2012

Alan Jackson

Chairman

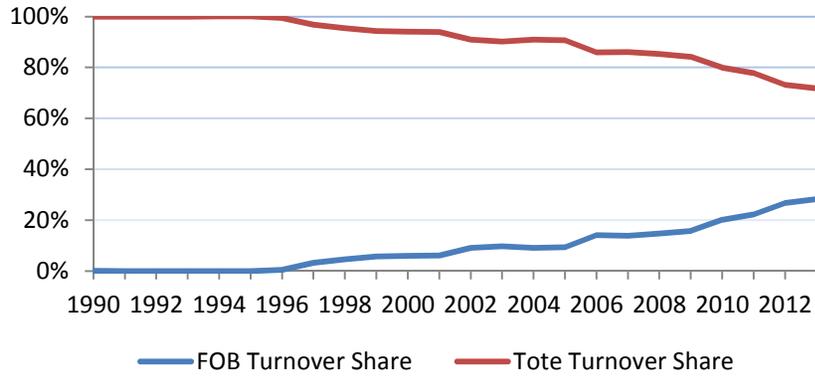
New Zealand Racing Board

Financial highlights

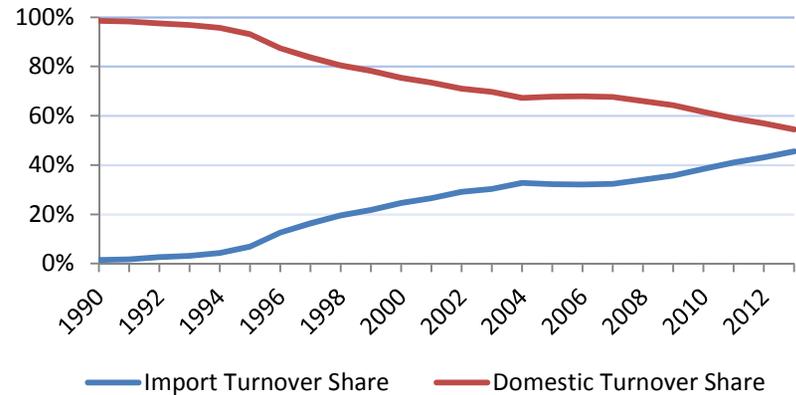
	2011	2012
Betting turnover	\$1.533b	\$1.622b
Net betting revenue	\$228m	\$238m
Operating expenses	\$146m	\$155m
Underlying profit	\$128m	\$133m
Plus Gaming	-	\$6m
Less impairment	\$4m	\$11m
REPORTED NET PROFIT	\$124m	\$128m

Key trends

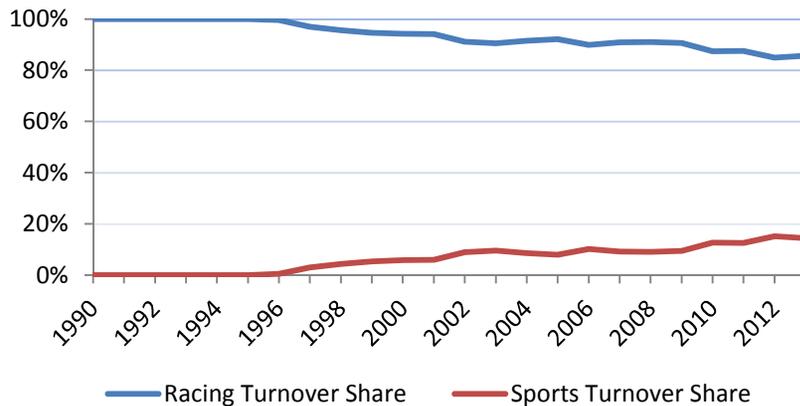
Tote vs FOB



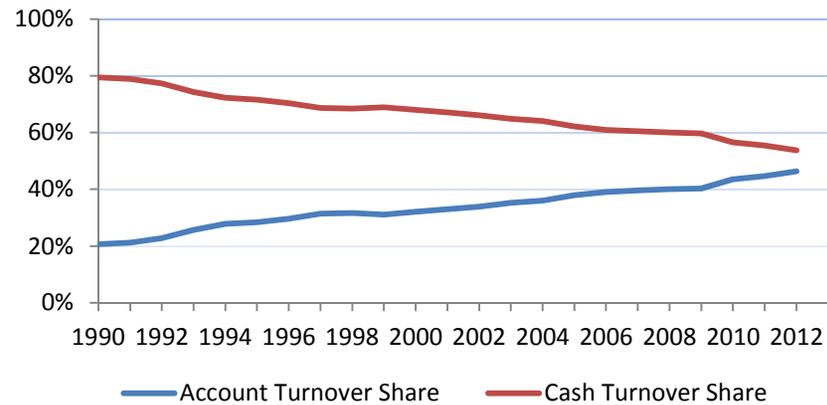
Domestic vs Import



Racing vs Sport



Cash vs Account



Our priorities

- Enhance returns to the racing industry
- Grow involvement and participation in racing
- Enhance perceptions of the industry
- Better involve and engage stakeholders
- Clearly understand the pathway to industry sustainability

ANNUAL GENERAL MEETING 2012

Peter V'landys

Chief Executive

Racing New South Wales

Introduction by NZ Racing Board Chief Executive Chris Bayliss

THE NSW EXPERIENCE

In the late 1990's Corporate Bookmakers domiciled themselves in Jurisdictions which charged low fees and took advantage of the "Gentlemen's Agreement" that existed in Australia at that time.



THE “GENTLEMEN’S AGREEMENT”

- The “Gentlemen’s Agreement” was an informal understanding between the State and Territory racing industries which allowed the free exchange of racing and betting information between them and allowed the wagering operators (bookmakers and totalizator licensees) in those jurisdictions to accept bets on races being conducted in other jurisdictions without the requirement to pay a fee for that privilege.
- This understanding came about during the last century and was instrumental in allowing the racing industries in each of the States and Territories to maximize revenue from all available betting opportunities.
- The “Gentlemen’s Agreement” put the Australian racing industry into a different position to that which applies in most overseas jurisdictions. For example, in the United States a 3% fee is charged between racing bodies in the different states. Similarly, a 3% fee is normally charged between various countries for the use of race fields for betting services, including fixed odds betting.



THE “GENTLEMEN’S AGREEMENT” Cont.

- When the understanding was reached it had no practical downsides for the relevant States and Territories because at that time all betting was conducted on a face-to-face basis and was therefore confined within the boundaries of the various jurisdictions. In other words the “Gentlemen’s Agreement” allowed each State to use other States’ racing information for the residents in their State.
- When telephone betting was introduced by State TAB’s it was agreed that there would be no overt action taken by them to attract customers from other jurisdictions.
- These actions therefore allowed the racing industries in each of the jurisdictions to develop commensurate with the relative populations of their States.



THE “GENTLEMEN’S AGREEMENT” Cont.

- The betting landscape changed significantly when telephone and internet betting with bookmakers was approved throughout Australia and certain States and Territory Governments licensed corporate bookmakers and betting exchanges whose primary objective was to attract bets from punters from the more populous States.
- This has resulted in the transfer of a significant level of turnover from punters in NSW and the other larger States to the Northern Territory, ACT and Tasmania resulting in lost revenue for the racing industries in the larger jurisdictions.
- This action was in stark contrast to the principles incorporated in the “Gentlemen’s Agreement”.



IN THE YEAR 2000

CORPORATE BOOKMAKERS
TURNOVER WAS \$1 BILLION



IN 2012

IT IS NOW \$6 BILLION



40% of that Turnover (\$2.4 Billion) is generated from NSW residents



For that \$2.4 Billion in Turnover the
NSW Racing Industry without
Race Fields Legislation would have
received

\$0



WHAT IS RACE FIELDS LEGISLATION

- Persons or Organisations who take wagers on NSW Races are required to have be approved by Racing NSW
- Also it compelled Wagering Operators to provide any betting information required by Stewards for integrity purposes



ENFORCEMENT

- The legislation provides for monetary and custodial penalties of up to \$110,000 for corporations and up to \$11,000 and 2 years imprisonment for individuals (including officials of a corporation) convicted of using NSW race fields without approval.



CHALLENGE TO RACE FIELDS LEGISLATION

• Betting exchange, Betfair Australia Pty Ltd, and corporate bookmaker, Sportsbet Pty Ltd, commenced proceedings in the Federal Court of Australia in late 2008 claiming that the fees imposed by Racing NSW contravened the “*free trade and commerce between States*” provisions of the Australian Constitution. Betfair maintained that a turnover based fee discriminated against it (a Tasmanian operator) in order to protect the NSW TAB whilst Sportsbet maintained that the entire Race Fields Scheme was invalid as it was intended to protect the NSW TAB and NSW on-course bookmakers in order to discriminate against it (a Northern Territory operator).



- The litigation took over three years and both cases were ultimately decided by the High Court of Australia.
- Betfair was unsuccessful at every stage, having its claim dismissed by a single judge of the Federal Court, Perram J on 16 June 2010, its appeal unanimously dismissed by the Full Court of the Federal Court (Chief Justice Keane (who has recently been appointed to the High Court) and Justices Buchanen and Lander) on 17 November 2010 and its appeal to the High Court unanimously dismissed by all seven judges of the High Court on 30 March 2012.
- Sportsbet as was the case for Betfair, had its claim unanimously dismissed by the same members of the Full Court of the Federal Court on 17 November 2010 and by all seven judges of the High Court on 30 March 2012.



**RACING NSW
NOW RECEIVING**

**\$50 Million per annum
From Race Fields
Legislation**



OTHER JURISDICTIONS

France

Legislation enacted to allow issuing of non-exclusive licenses to wagering operators (Local and overseas). Legislation provides for:

- Wagering on horse racing, sports and on-line poker,
- Licensed operators are subject to a tax rate of 6.4% of turnover for sports and horseracing wagering and 2% of bets for poker,
- In addition to these taxes licensed operators are to pay a product fee to French racing of 8% of turnover and a 1% contribution to the funding of amateur sport,
- Operators wishing to conduct sports betting must sign trade agreements with the organizers of sporting events.



France (Cont.)

The Legislation also provides for:

- The organization of unlicensed internet gambling is punishable by 3 years of imprisonment and a € 90,000 fine for each individual offence. (This increases to 7 years imprisonment and a fine of €200,000 where the offence is committed by an “organized gang”).
- Blocking internet connections with unlicensed sites.
- Prohibiting the advertising of sites of unlicensed operators (Fine of €100,000 and the court can increase this to four times the amount spent on the illegal advertising.)



Greece

Legislation prohibits players from accessing the betting accounts of any website which has not acquired an operating license in Greece. The Legislation provides for:

- Unlicensed gambling sites to be fined €20,000 per day during first week of operation and €40,000 per day after the first week,
- Third Party web-sites advertising unlicensed gambling operators fined €40,000 per day during first week of operation and €80,000 per day after the first week,
- Internet Service Providers (ISP's) which allow access to unlicensed operators fined €50,000 per day during first week of operation and €100,000 per day after the first week,



Greece (Cont.)

- Customers who gamble on-line with unlicensed operators fined €1,000 per activity,
- The legislation in Greece has caused Betfair to abandon their Greek operations as it didn't wish to be exposed to criminal prosecution for being unlicensed.



Turkey

Legislation provides:

- Prohibitions against betting with an operator who is not contributing to the industry,
- Ability for National Jockey Club to enter into agreements with ISP's to stop internet traffic with off-shore betting sites,
- ISP's who do not co-operate voluntarily are subject to court orders and monetary penalties.



New York State

Legislation enacted which:

- Provides the regulatory body with an approval process for USA based wagering operators, and
- Bans financial transactions with off-shore betting web-sites



Germany

- Legislation passed by the German Government requires that from July 2012 wagering operators pay a 5% tax on turnover
- Uniformity in betting tax on sport and horse racing
- 96% Returned to German Racing Industry



Germany

- This replaces a previous tax on German based totes and bookmakers and includes online wagering operators that previously not taxed in Germany
- Applies to all bets placed in Germany by a customer who is domiciled, or is habitually a resident in Germany



Germany

- Betfair exited Germany in early November
- UK bookmaker William Hill Bookmaker is no longer taking bets from German residents



NEW ZEALAND

- Approximately \$80 million per annum is bet on New Zealand Racing with Corporate Bookmakers in Australia
- Turnover is coming from New Zealand residents



LOSS TO NEW ZEALAND RACING INDUSTRY

Of \$80 million, estimate 20% coming from New Zealand residents and 80% from Australian residents

If option was not available New Zealand Racing would receive:

Bet on NZ Tab @ 8.2% = \$1,312,000

2.7% generated on sale to Australia = \$1,728,000

Total

\$3,040,000



RACINGS KEY PERFORMANCE INDICATORS INTERNATIONAL RETURNS TO OWNERS AS A PROPORTION OF RACING AND TRAINING COSTS

100 % +	Hong Kong	TOTALIZATOR ONLY
	Singapore	TOTALIZATOR ONLY
60 % - 100 %	Japan	TOTALIZATOR ONLY
40 % - 60 %	France	TOTALIZATOR ONLY
	AUSTRALIA	TOTALIZATOR DOMINANT
	America	TOTALIZATOR ONLY
	South Africa	TOTALIZATOR DOMINANT
< 30 %	Ireland	BOOKMAKER DOMINANT
	Germany	BOOKMAKER DOMINANT
	Britain	BOOKMAKER DOMINANT



OPTIONS AVAILABLE TO NEW ZEALAND

- The introduction of prohibitions which prevent overseas operators from providing wagering services to New Zealand residents,
- The introduction of legislation making it a criminal offence for a New Zealand licensed financial institution to process deposits and withdrawals between New Zealand and overseas wagering operators
- The introduction of legislation to require the regulator to block those Internet Service Providers (ISP) which facilitate wagering operators to provide online wagering facilities to New Zealand residents, and
- Not allow any advertising whatsoever by unlicensed wagering operators
- These prohibitions should be complemented with significant penalties including monetary fines and criminal sanctions so as to ensure compliance with the legislation.



NEW ZEALAND'S LEGISLATIVE AND ADMINISTRATIVE ADVANTAGES

- The enactment and enforcement of legislation in New Zealand is simpler than it is in Australia,
- Australia operates under a federal system with a Federal Government and 8 separate State and Territory Governments,
- Racing and Wagering in Australia are administered on a state by state basis and the Australian Constitution ensures the freedom of trade between the States and Territories,
- It is not possible for one Australian State to impose conditions on wagering which restrict the operations of interstate wagering operators,



- This resulted in the Northern Territory, the Australian Capital Territory and Tasmania licensing corporate bookmakers and betting exchanges whose sole purpose was to source bets from residents of the larger States,
- To complicate the matter further the Federal Government has responsibility for on-line activity and the regulation of the banking and finance sectors.
- New Zealand however, has one national Government with full responsibility for the administration of racing and wagering as well as banks and financial institutions and is in a position to enact all-encompassing legislation.



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Chris Bayliss

Chief Executive

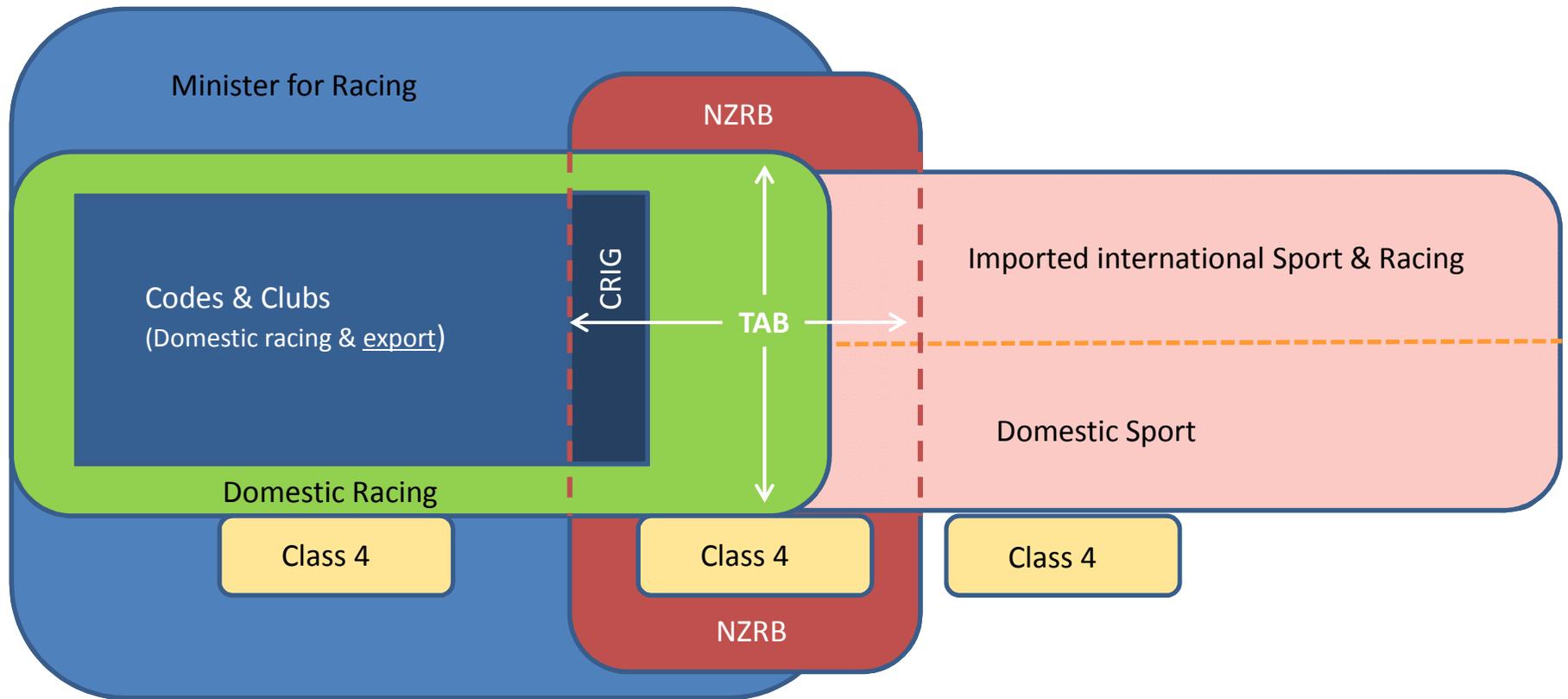
New Zealand Racing Board

Momentum is building

In the four months to November 2012...

- Turnover up \$50m YoY (9%)
- Gross Betting Revenue up \$7m (8%)
- November saw first \$20m day in our history
- November was the highest turnover month in our history
- Revised 12/13 SOI will show a further \$6m of distributions 12-15
- 13/14 SOI will likely reveal further upward revisions

NZ Racing Board and environment



Timeline

