

Interim Report

FINANCIAL YEAR 2017





Television New Zealand Limited

Consolidated Interim Financial Statements for the six months ended 31 December 2016 (Unaudited)

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TVNZ Company Overview

TVNZ has delivered an after tax net profit of \$12.9 million for the six months to 31 December 2016, up 1% on the same period last year.

TVNZ is continuing to out-perform a declining TV market by growing its share of audiences and revenues. TVNZ is on track to achieve the full year target set out in its 2017 Statement of Performance Expectations.

TVNZ's financial performance has shown resilience during a period of unprecedented change in the media industry. The New Zealand television advertising revenue market decreased 8.4% for the half year, however TVNZ was able to partially offset this through increased market share and growth in online revenues to achieve advertising revenues for the period of \$159.4 million (down 5.1% from \$168.1 million for the six months to 31 December 2015). Additionally, a concerted focus on expenditure means lower costs have also helped to offset the lower revenues.

TVNZ's increased share of TV audiences has been led again by news and current affairs programming along with high performing entertainment options across TVNZ 1, 2, and DUKE.

TVNZ continues to be a big part of people's daily lives – each day we reach more than 2 million viewers. Of the top 20 most watched shows by New Zealanders, 1 through to 19 were all on TVNZ.

While free to air television continues to provide unrivalled daily reach compared to other media options, increasingly audiences are showing up online. TVNZ's total digital streams topped 81

million for the period: 1 NEWS streams increased 37% and TVNZ OnDemand streams were up 24% on the same period last year.

This digital growth remains a priority for the remainder of FY2017. TVNZ will shortly launch a new website which brings live TV and ondemand viewing together in one place. It will give TVNZ's 1.4 million registered online users a significantly improved and more personal entertainment experience.

The pace of change in our industry won't let up, and our business needs to keep adapting to reflect the new market reality. While our NPAT is up nominally, TVNZ's underlying performance is down 6.2% (EBITDAF of \$26.7 million as at 31 December 2016, compared to 28.5 million for the six months to 31 December 2015) so our focus is on building on current momentum to create a sustainable future video business for TVNZ.

This includes progressing content initiatives for younger viewers and fast-tracking innovative ideas from within the business – such as eSports on DUKE and TVNZ OnDemand, the New Blood Webseries competition, establishing a content creation hub and fostering emerging talent.

While the ongoing fragmentation of viewing audiences will continue to impact free to air audiences we expect the second half of the financial year will bring some certainty around the local market structure as the outcomes in relation to the mergers between SKY/Vodafone and NZME/Fairfax are determined.



Kevin Kenrick
Chief Executive

Consolidated Income Statement

FOR THE SIX MONTHS ENDED 31 DECEMBER 2016 (UNAUDITED)

		CONSOLIDATED		
		6 MONTHS ENDED 31/12/16	6 MONTHS ENDED 31/12/15	YEAR ENDED 30/06/16
		\$000	\$000	\$000
	NOTES			
Income				
Operating revenue	3	165,860	175,953	319,641
Government funding		2,881	2,632	4,948
Gain on sale of property, plant and equipment		0	61	65
		168,741	178,646	324,654
Expenses				
Programme amortisation		(89,440)	(93,710)	(177,140)
Employee benefits		(24,230)	(24,855)	(47,728)
Transmission, technology and telecommunications		(9,351)	(9,838)	(19,544)
Premises and occupancy		(2,354)	(3,447)	(7,697)
Marketing		(3,821)	(4,826)	(10,095)
Other	4	(12,858)	(13,520)	(25,564)
		(142,054)	(150,196)	(287,768)
Earnings before depreciation and amortisation, interest, financial instruments, joint venture and tax (EBITDAF)		26,687	28,450	36,886
Depreciation and amortisation		(8,282)	(7,641)	(15,558)
Interest income		331	703	1,421
Interest expense		(74)	(45)	(90)
Financial instruments/foreign currency gains/(losses)		(857)	(3,557)	(4,790)
Share of results of joint venture		9	0	(38)
Profit for the period before tax		17,814	17,910	17,831
Income tax expense		(4,963)	(5,204)	(5,144)
Profit for the period		12,851	12,706	12,687

The accompanying notes form part of these financial statements.

Consolidated Statement of Comprehensive Income

FOR THE SIX MONTHS ENDED 31 DECEMBER 2016 (UNAUDITED)

	CONSOLIDATED		
	6 MONTHS ENDED 31/12/16	6 MONTHS ENDED 31/12/15	YEAR ENDED 30/06/16
	\$000	\$000	\$000
Profit for the period	12,851	12,706	12,687
Other comprehensive income/(loss) for the period net of income tax	0	0	0
Total comprehensive income for the period	12,851	12,706	12,687

Consolidated Statement of Changes in Equity

FOR THE SIX MONTHS ENDED 31 DECEMBER 2016 (UNAUDITED)

	CONSOLIDATED		
	SHARE CAPITAL	RETAINED EARNINGS	TOTAL
	\$000	\$000	\$000
At 1 July 2016	140,000	68,692	208,692
Total comprehensive income	0	12,851	12,851
Equity transactions			
Dividend paid in the period	0	(13,370)	(13,370)
At 31 December 2016	140,000	68,173	208,173
At 1 July 2015	140,000	64,277	204,277
Total comprehensive income	0	12,706	12,706
Equity transactions			
Dividend paid in the period	0	(8,272)	(8,272)
At 31 December 2015	140,000	68,711	208,711
At 1 July 2015	140,000	64,277	204,277
Total comprehensive income	0	12,687	12,687
Equity transactions			
Dividend paid in the period	0	(8,272)	(8,272)
At 30 June 2016	140,000	68,692	208,692

The accompanying notes form part of these financial statements.

Consolidated Statement of Financial Position

AS AT 31 DECEMBER 2016 (UNAUDITED)

		CONSOLIDATED	
		AS AT 31/12/16	AS AT 30/06/16
		\$000	\$000
ASSETS			
Current Assets			
Cash and cash equivalents		50,357	44,812
Trade and other receivables		45,828	48,025
Programme rights - intangible assets		48,508	46,077
Derivative financial instruments	6	223	273
Total current assets		144,916	139,187
Non-current Assets			
Property, plant and equipment		111,230	110,943
Other intangible assets		18,319	18,660
Deferred tax asset		686	316
Derivative financial instruments	6	29	51
Investment in joint venture		121	112
Total non-current assets		130,385	130,082
Total assets		275,301	269,269
LIABILITIES			
Current Liabilities			
Bank overdraft		0	91
Trade and other payables		57,440	52,812
Deferred income		1,414	1,921
Income tax payable		4,008	0
Derivative financial instruments	6	2,578	2,605
Provisions		0	1,099
Total current liabilities		65,440	58,528
Non-current Liabilities			
Employee entitlements		1,134	1,071
Derivative financial instruments	6	554	978
Total non-current liabilities		1,688	2,049
Equity			
Contributed equity		140,000	140,000
Retained earnings		68,173	68,692
Total Equity		208,173	208,692
Total equity and liabilities		275,301	269,269

The accompanying notes form part of these financial statements.

Consolidated Statement of Cash Flows

FOR THE SIX MONTHS ENDED 31 DECEMBER 2016 (UNAUDITED)

		CONSOLIDATED		
		6 MONTHS ENDED 31/12/16	6 MONTHS ENDED 31/12/15	YEAR ENDED 30/06/16
		\$000	\$000	\$000
	NOTES			
Cash flows from/(used in) operating activities				
Receipts from customers		170,801	179,419	321,211
Receipt of government grants		2,075	2,254	5,402
Interest received		423	704	1,434
Payments to suppliers and employees		(143,406)	(149,053)	(293,785)
Interest paid		(74)	(45)	(90)
Income tax paid		(501)	(5,389)	(6,700)
Net cash flows from/(used in) operating activities	5	29,318	27,890	27,472
Cash flows from/(used in) investing activities				
Proceeds from sale of property, plant and equipment		0	61	77
Purchase of property, plant and equipment		(7,605)	(4,230)	(20,504)
Purchase of intangibles		(2,708)	(3,292)	(4,202)
Investment in joint venture		(0)	(150)	(150)
Net cash flows from/(used in) investing activities		(10,313)	(7,611)	(24,779)
Cash flows from/(used in) financing activities				
Dividends paid		(13,370)	(8,272)	(8,272)
Net cash flows from/(used in) financing activities		(13,370)	(8,272)	(8,272)
Net increase/(decrease) in cash and cash equivalents		5,635	12,007	(5,579)
Net foreign exchange differences		1	38	38
Cash and cash equivalents at the beginning of the period		44,721	50,262	50,262
Cash and cash equivalents at the end of the period		50,357	62,307	44,721
Cash and cash equivalents comprise:				
Cash at bank and in hand		40,357	33,401	26,669
Short term deposits		10,000	30,000	25,000
Cash and cash equivalents		50,357	63,401	51,669
Bank overdrafts used for cash management purposes		0	(1,094)	(1,407)
Cash and cash equivalents in the statement of cash flows		50,357	62,307	50,262

The accompanying notes form part of these financial statements.

Notes to the Consolidated Financial Statements

FOR THE SIX MONTHS ENDED 31 DECEMBER 2016 (UNAUDITED)

1. Corporate Information

Television New Zealand Limited and its subsidiaries (the Group) operate as a multi-channel television and digital media broadcasting and production company in New Zealand.

Television New Zealand Limited (the Company) is a limited liability company incorporated in New Zealand under the Companies Act 1993 and is wholly owned by the Crown. The Company is bound by the requirements of the Television New Zealand Act 2003. The Crown does not guarantee the liabilities of Television New Zealand Limited in any way.

These consolidated financial statements were approved for issue by the Board of Directors on 21 February 2017.

2. Basis of preparation and significant accounting policies

a) Basis of preparation

The unaudited interim financial statements for the six months ended 31 December 2016 have been prepared in accordance with NZ IAS 34 Interim Financial Reporting and the requirements of the Television New Zealand Act 2003.

The unaudited interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 30 June 2016.

The financial statements are presented in New Zealand dollars (\$), which is the Company's functional currency. All financial information presented in New Zealand dollars has been rounded to the nearest thousand.

b) Changes in accounting policies

The accounting policies used in the preparation of the unaudited interim financial statements are consistent with those used in the preparation of the Group's annual financial statements for the year ended 30 June 2016, unless otherwise stated.

3. Operating revenue

	6 MONTHS ENDED 31/12/16	6 MONTHS ENDED 31/12/15	YEAR ENDED 30/06/15
	\$000	\$000	\$000
Advertising revenue	159,424	168,081	303,902
Other trading revenue	6,436	7,872	15,739
	165,860	175,953	319,641

Advertising revenue includes revenue from advertising, sponsorship and programme production funding on TVNZ 1, 2, DUKE, OnDemand, 1 NEWS NOW and tvnz.co.nz.

Other trading revenue includes revenue from production facilities, programme sales, commercial licensing, multi feed service and subscription television (to 30 April 2016).

Notes to the Consolidated Financial Statements

FOR THE SIX MONTHS ENDED 31 DECEMBER 2016 (UNAUDITED)

4. Other expenses

Other expenses include central overhead expenses, reorganisation costs, industry levies and multi-feed event expenses.

5. Reconciliation of profit after tax to net cash flow from operating activities

	6 MONTHS ENDED 31/12/16	6 MONTHS ENDED 31/12/15	YEAR ENDED 30/06/16
	\$000	\$000	\$000
Net profit	12,851	12,706	12,687
Adjustments for:			
Depreciation and impairment	5,480	5,227	9,671
Amortisation	2,802	2,414	5,887
Loss/(gain) on disposal of property, plant and equipment	0	(61)	(65)
Unrealised foreign currency (gains)/losses	(126)	3,692	4,662
Share of associate net (gains)/losses	(9)	0	38
Changes in assets and liabilities			
(Increase)/decrease in trade and other receivables	1,325	1,393	5,034
(Increase)/decrease deferred tax asset	(370)	1,649	1,632
(Increase)/decrease programme rights	(2,431)	1,546	(2,771)
Increase/(decrease) trade and other payables	6,570	2,422	(4,211)
Increase/(decrease) deferred income	(507)	(670)	(1,345)
Increase/(decrease) income tax payable	4,832	(1,834)	(3,188)
Increase/(decrease) provisions	(1,099)	(594)	(559)
Net cash from operating activities	29,318	27,890	27,472

Notes to the Consolidated Financial Statements

FOR THE SIX MONTHS ENDED 31 DECEMBER 2016 (UNAUDITED)

6. Derivative Financial Instruments

	AS AT 31/12/16	AS AT 30/06/16
	\$000	\$000
Current Assets		
Forward currency contracts - fair value hedge	56	22
Foreign currency embedded derivative contracts	167	251
	223	273
Non-current Assets		
Forward currency contracts - fair value hedge	26	38
Foreign currency embedded derivative contracts	3	13
	29	51
Current Liabilities		
Forward currency contracts - held for trading	2,522	2,583
Forward currency contracts - fair value hedge	56	22
	2,578	2,605
Non-current Liabilities		
Forward currency contracts - held for trading	528	940
Forward currency contracts - fair value hedge	26	38
	554	978

a) Instruments used by the Group

Derivative financial instruments are used by the Group in the normal course of business in order to hedge exposures to fluctuations in foreign exchange and interest risk. Movements in foreign currency exchange rates impact the unrealised gains and losses recognised in the income statement and can be volatile.

i) Forward currency contracts - held for trading

The Group has entered into forward exchange rate contracts which are economic hedges but do not satisfy the requirements for hedge accounting. The following table details the notional amounts of these derivative financial instruments at balance date.

	AS AT 31/12/16	AS AT 30/06/16
	NZD \$000	NZD \$000
Buy AUD/Sell NZD - Maturity 0-12 months	56,932	58,652
Buy AUD/Sell NZD - Maturity 13-36 months	41,313	34,603

During the period the forward currency policy has been updated to permit forward exchange rate contracts out to 36 months with cover up to 50% of committed expenditure.

As at 31 December 2016 there were no forward exchange rate contracts exceeding 24 months.

Notes to the Consolidated Financial Statements

FOR THE SIX MONTHS ENDED 31 DECEMBER 2016 (UNAUDITED)

6. Derivative Financial Instruments (continued)

ii) Forward currency contracts – fair value hedge

The Group has entered into forward exchange rate contracts which are economic hedges against the purchase of certain capital, programme rights and production expenditure. The fair value gains/(losses) on the hedged item are equal to the fair value gains/(losses) of the hedging instrument. The following table details the notional amounts of these derivative financial instruments at balance date.

	AS AT 31/12/16	AS AT 30/06/16
	NZD \$000	NZD \$000
Buy AUD/Sell NZD - Maturity 0-12 months	1,726	1,079
Buy AUD/Sell NZD - Maturity 13-24 months	703	1,406
Buy GBP/Sell NZD - Maturity 0-12 months	26	0

iii) Foreign currency embedded derivative contracts

The Group has entered into programme supply contracts that contain a foreign currency embedded derivative. The following table details the notional amounts of these embedded derivatives at balance date.

	AS AT 31/12/16	AS AT 30/06/16
	\$000	\$000
Sell AUD/Buy NZD - Maturity 0-12 months	8,974	11,341
Sell AUD/Buy NZD - Maturity 13-24 months	1,615	219

Fair Value

The fair value of the financial instruments is estimated using Level 2 criteria such as present value techniques, comparison to similar instruments for which market observable prices exist and other relevant models used by market participants.

Notes to the Consolidated Financial Statements

FOR THE SIX MONTHS ENDED 31 DECEMBER 2016 (UNAUDITED)

7. Commitments

	AS AT 31/12/16	AS AT 31/12/15	AS AT 30/06/16
	\$000	\$000	\$000
Programme rights	301,035	387,782	329,183
Operating leases	3,515	4,845	3,161
Property, plant and equipment and software	2,752	19,341	3,987
	307,302	411,968	336,331

Commitments for programme rights are primarily denominated in Australian dollars and are converted at the exchange rate ruling at the date of transaction and revalued at the end of the period. The commitments are determined with reference to the licence period start dates.

The committed expenditure for the refurbishment of the building at 100 Victoria Street West was included in commitments at 31 December 2015; this refurbishment is now largely complete.

8. Contingent Liabilities

In the normal course of business various legal claims have been made against Television New Zealand Limited. Given the stage of proceedings and uncertainty as to the outcomes of the cases, no estimate of the financial effect can be made and no provision for any potential liability has been made in the financial statements.

Sky Network Television Limited has issued breach of copyright proceedings against TVNZ and three other defendants in relation to the use of sporting clips on their respective news websites. TVNZ is defending the action as it believes the use is covered under the Copyright Act and is consistent with historical practice. Due to the early stage of these proceedings, no assessment can be made of the likely outcome.

9. Events after the balance sheet date

There have been no significant events occurring since balance date requiring disclosure.

Share in a the moment that matters

TVNZ Locations

AUCKLAND

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