tvnz

Annual Report

FINANCIAL YEAR 2016

Contents

Sharing the moments that matter

TOTAL PROFIT
$12.7 million

TOTAL REVENUE
$326.1 million

TVNZ ONDEMAND REGISTRATIONS
1.2 million

VIEWERS
2.2 million per day

Chair's Address

Joan Withers

TVNZ has continued to grow share of audiences and share of advertising revenue. However, like most other media businesses, TVNZ is experiencing downward pressure on business profitability.

The Company has reported a net profit after tax of $12.7 million for the financial year ending June 2016. Profit was in line with the financial targets set out in the Statement of Performance Expectations after adjusting for unrealised foreign exchange losses.

For the second consecutive year, TVNZ has increased its share of television advertising revenue, moving from 60.8% to 61.3% in this financial year. In a difficult and competitive market, this result is laudable however the overall market decline meant that the gain in share failed to offset the reduction in absolute advertising dollars.

Year on year TVNZ total revenue declined $23.9 million or 6.8%. Advertising revenue declined by $10.3 million or 3.3% and the balance of the overall reduction from the prior year was the result of reduced government funding and event broadcast linking services and the one-off gain on sale of the TVNZ Archive assets in FY2015. Year on year operating costs reduced by 3.3% to $303.3 million.

Accountability and funding for Pacific Broadcast Services transferred from TVNZ to Pacific Cooperation Broadcasting Limited during the financial year meaning TVNZ no longer receives government funding.

The multi-year refurbishment and restitution of TVNZ's Auckland building at 100 Victoria Street West was completed in 2016 and the building was officially re-opened by the Prime Minister, Rt Honourable John Key on Friday 2nd September.

The building has been brought up to current building and health and safety standards, and is now an 'open and live' working environment ideally suited to the creative and collaborative needs of New Zealand's leading video content business.

The completion of this major capital project signifies the resumption of full dividend payments and TVNZ will return a dividend of $13.4 million for FY2016.

The health, safety and well-being of our people continues to be a key focus for the Company and the introduction of the new Health and Safety legislation has been embraced as an opportunity to ensure we are operating at best practice level.

The media industry both in New Zealand and globally has never been more dynamic, but the Board, Chief Executive and the senior executive team are committed to meeting the challenges we face and finding the opportunities that exist in this rapidly changing environment.

On behalf of the Board, I would like to acknowledge the service of directors Richard Long and Roger MacDonnell who ended their governance terms with TVNZ during the year and welcome incoming directors Toko Kapea and Kevin Malloy.

I would also like to thank the management team at TVNZ for their leadership in continuing to grow our share of audiences and advertising revenues during another year of significant change. I also want to thank TVNZ staff, many of whom were relocated for the duration of the building refurbishment. Our ability to outperform our competitors in the delivery of audiences and advertising dollars is testament to their hard work and commitment.

Joan Withers

Hillary

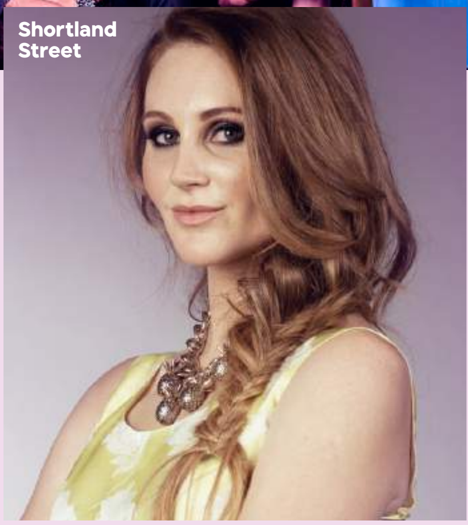
Nigel Latta

David Attenborough Great Barrier Reef

TVNZ 1 is the original, we've been with New Zealanders for years. But, it's the stories we tell and the way we tell them that keeps us relevant in the eyes of our viewers.


stories that
stay with you

Filthy Rich



Shortland Street

Police Ten 7

TVNZ 2 is New Zealand's go to for big entertainment moments. Whether it's soaps, reality or comedy, we've got the shows you can't help but love.

Adam & Eve

Sports. Factual. Comedy. Drama. Movies. A reliable mate, who's full of surprises. The unexpected conversation starter.

TVNZ DUKE

Kevin Kenrick

Chief Executive's Overview

In an increasingly fragmented content market TVNZ has focussed on driving its audience reach across 1, 2, DUKE, OnDemand and 1 NEWS NOW. For the last financial year, TVNZ reached an average 2.2 million viewers per day.

The performance highlight of the year was TVNZ's strengthened share of TV audiences. Audience share reached a five year high powered by market leading news, current affairs and local entertainment programmes.

The use of mobile devices to view video content online has powered average TVNZ online streams above 10 million per month. TVNZ OnDemand users watched 65 million streams in FY2016 and TVNZ's 1 NEWS NOW online platform streamed 62 million videos – a 227% increase year-on-year.

In March 2016 TVNZ launched DUKE, its new on-air and online entertainment channel which is performing well in its target demographic. In addition to delivering valuable younger male skewing audiences, DUKE is being used to pilot live online content streaming and unified (on-air plus online) audiences for advertisers.

Looking ahead, TVNZ is confident it can continue to grow its share of on-air audiences and will continue to seek out partnering opportunities to compete more effectively with global scale online competitors. Partnering collaborations in FY2016 included:

- Kiwi Premium Advertising Exchange (KPEX) – a joint venture local online advertising exchange service with Fairfax Media, MediaWorks and NZME was launched in November 2015. Pooling advertising inventories on KPEX is providing a simple and cost effective way for advertisers to reach high quality local audiences online.
- In May 2016, TVNZ and Fairfax Media began a trial to distribute 1 NEWS video stories on stuff.co.nz - extending the reach of 1 NEWS stories.

Audience fragmentation has fuelled debate in recent years about the relative advertising merits of 'traditional' versus 'digital' media. This debate is now progressing to a more constructive focus on how to maximise marketing effectiveness in a digital world.

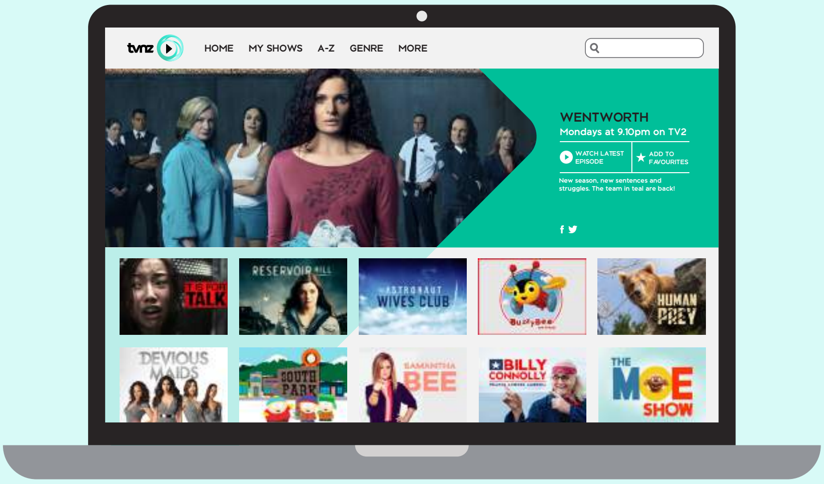
TVNZ has chosen to specialise in video which is undoubtedly the fastest growing content format and is proving to be the most effective way to engage audiences. The challenge and opportunity for TVNZ is to work with advertisers to optimise the intersection between the reach and engagement advantages of mass media with the transactional capabilities of digital platforms.

This will require an ongoing focus on generating the most compelling content; making this available where viewers choose to watch it; and helping advertisers engage with TVNZ audiences to grow their brands and businesses.

The stronger TVNZ's audience reach and engagement, the better placed we are to participate in the changing New Zealand media market in the year ahead.

Kevin Kenrick

Press play.
You're in control.

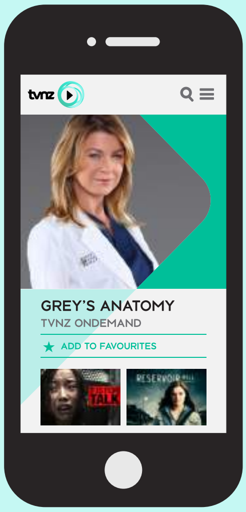


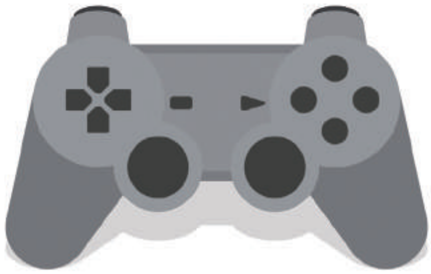

Home and Away

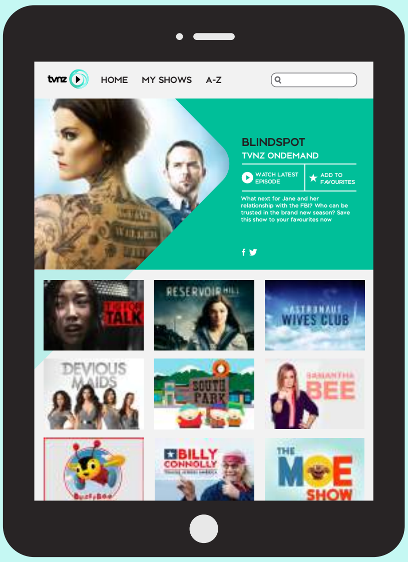

Shameless

tvnz


Arrow


tvnz
GREY'S ANATOMY
TVNZ ONDEMAND
ADD TO FAVOURITES




tvnz
HOME
MY SHOWS
A-Z
BLINDSPOT
TVNZ ONDEMAND
RESERVOIR HILL
ASTRONAUT WIVES CLUB
DEVIOUS MAIDS
SOUTH PARK
BEE
BILLY CONNOLLY
THE MOE SHOW


Blade NZ

Financial Performance

TVNZ reported a net profit after tax of $12.7 million.

Total revenue for the year declined $23.9 million (6.8%) due to reductions in advertising revenue, government funding, event broadcast linking services and after accounting for the one off gain on sale of the TVNZ Archive assets in FY2015.

Advertising revenue was $303.9 million, a $10.3 million (3.3%) decrease from the prior year. TVNZ has increased its share of the total television advertising market revenues to 61.3% from 60.8%. However, this growth in share was insufficient to offset market decline.

The outsourcing of transmission of programmes to Pacific nations (September 2015) and selected Maori and Pacific Island programmes (January 2015) primarily accounts for the reduction in government funding.

TVNZ has reduced its operating costs by $10.4 million (3.3%) to $303.3 million from the prior year. The decrease in programme amortisation reflects changes to programme rights fees, programme volumes and the outsourcing of production of selected Maori and Pacific Island programmes.

Earnings before interest, tax and revaluations of $22.7 million have decreased by $13.6 million. Excluding the one off gains on sale of property, plant and equipment, underlying earnings decreased $8.1 million on the prior year.

TVNZ reported a net profit after tax of $12.7 million, a 55% decrease on the prior year result of $28.1 million, and a 6.1% return on Shareholder equity.

FINANCIAL MEASURES

Measurement	FY2016 Actual	FY2016 Target	FY2015 Actual
Profitability			
Return on average equity	6.1%	7.7%	14.8%
EBITDA/television advertising revenue	13.3%	14.3%	16.1%
Gearing			
Net interest bearing debt/net interest bearing debt plus equity	0.0%	Less than 40%	0.0%
Financial Stability			
Total equity/total assets	77.5%	More than 40%	75.5%
Interest Cover			
EBITDA/Interest expense	426 times	More than 4 times	548 times

PERFORMANCE MEASURES

The following set of measures demonstrate efficiency and productivity at TVNZ.

Return on Programme Investment

Measurement	FY2016 Actual $000	FY2016 Target $000	FY2016 Actual $000
Aggregate programme revenue[1]	311,741	318,537	325,353
Programme amortisation cost	177,140	180,698	186,183
% programme cost of revenue	56.8%	56.7%	57.2%

Note 1: Aggregate programme revenue includes advertising and sponsorship revenue, programme funding and licensing revenue.

Revenue productivity - employees

Measurement	FY2016 Actual $000	FY2016 Target $000	FY2015 Actual $000
Total revenue (excl gain on sale of PPE)	326,010	328,155	344,488
Employee (FTE) average	703.1	734.7	787.6
Revenue per FTE	463.7	446.7	437.4

Business efficiency - non-programme costs

Measurement	FY2016 Actual $000	FY2016 Target $000	FY2015 Actual $000
Total revenue (excl gain on sale of PPE)	326,010	328,155	344,488
Total non-programme costs	126,186	125,473	127,493
% non-programme costs to revenue	38.7%	38.2%	37.0%

People Capability and Capacity

TVNZ's people and talent strategy is focused on ensuring our people have the capability and confidence to succeed in an industry which is rapidly changing on a global scale.

This year we have:

- clarified, and brought to life TVNZ's purpose, vision and values for our people.
- grown digital confidence and aligned the business around a rapidly evolving viewer lens.
- continued to invest in our key talent and people leaders.
- rolled out companywide training on the Health and Safety at Work Act 2015 and developed specific training modules for our commissioning and production teams.
- completed our Auckland office refurbishment providing a contemporary, open-plan and collaborative work environment.
- come runner up in the Randstad Awards for New Zealand's most attractive employer for the second year in a row.

Good Employer

TVNZ has adopted the guidelines of the Human Rights Commission in monitoring seven aspects of our engagement with our employees.

1. Leadership, Accountability and Culture

- Providing our people with ongoing context, direction and leadership on the performance of TVNZ within a rapidly changing industry landscape.
- Implementing multiple employee-led initiatives to enhance employee engagement.

2. Recruitment, Selection and Induction

- Surveying job applicants on nationality, ethnicity, gender, age, accessibility to help us understand our candidate profile and hiring behaviours.
- Educating our business leaders on unconscious bias and the importance of inclusion and diversity in selection and promotion.

3. Employee Development and Promotion

- Providing digital capability training to our people.
- Providing coaching for our people leaders on key leadership capabilities including brave conversations, authentic leadership, influencing others, change agility and resilience, and inspiring and motivating others.
- Making a range of functional training and development courses available for our people.

4. Flexibility and Work Design

- Flexible work arrangements include part-time, job share, working from home, remote access and casual employment.
- A more flexible and dynamic work environment has been created in the refurbished Auckland office.

5. Remuneration, Recognition and Conditions

- Individual, peer and team recognition is encouraged and practised.
- Remuneration is externally benchmarked against the market each year and we review internal remuneration relativities between genders.

6. Harassment and Bullying Prevention

Policies and practices include:

- Equal Employment Opportunity policy.
- Harassment policy.
- Social Media Policy.

7. Safe and Healthy Environment

- Implementing training on the new health and safety legislation.
- Developing a health and safety due diligence framework for officers of TVNZ.
- Regularly review and audit our health and safety systems and processes to ensure they meet best practice.
- Provide an Employee Assistance Programme, discounted health insurance and subsidised gym memberships.







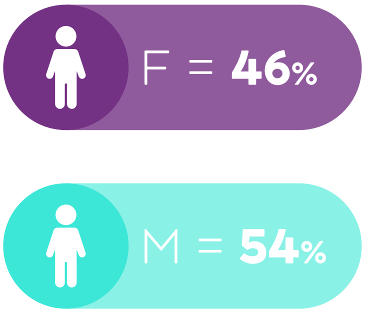


Workforce Profile

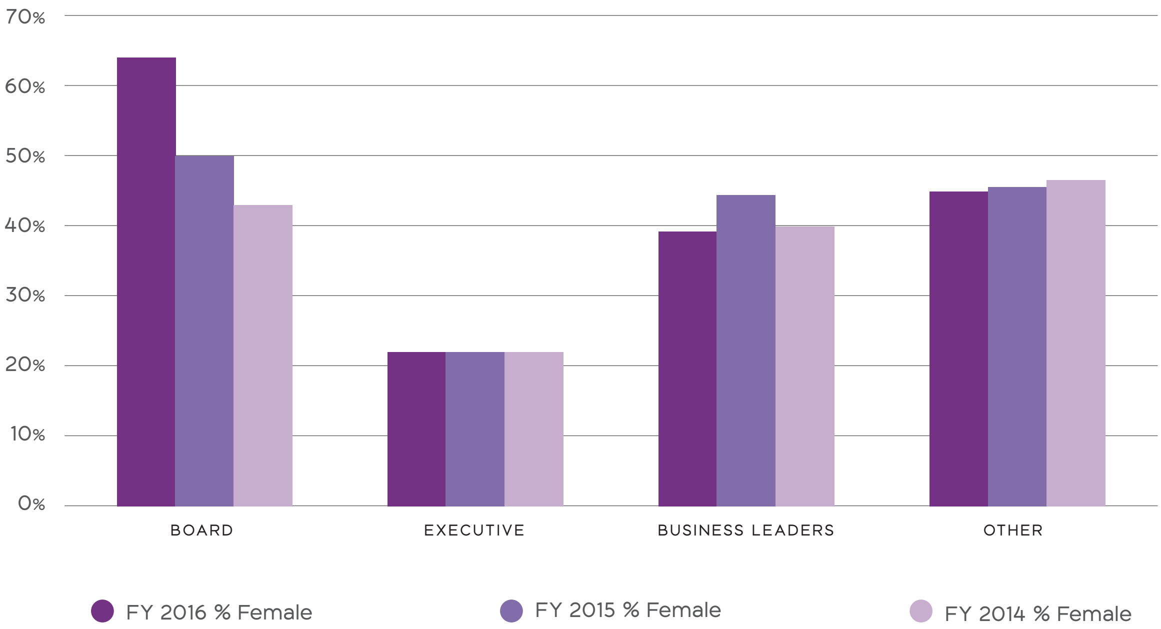
Employee Count

707

Gender



Female Gender Representation



Tenure

Less than 1 year	19%
1 - 2 years	20%
3 - 4 years	13%
5 - 9 years	22%
10 - 19 years	15%
20 years and over	11%

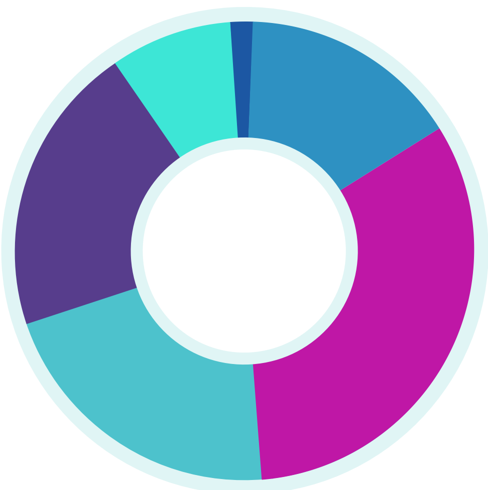
Age

15 - 24 Years	7%
25 - 34 Years	31%
35 - 44 Years	30%
45 - 54 Years	20%
55 and over	11%

Ethnicity

68%	NZ European / European
5%	Maori
2%	Indian
2%	Pacific
2%	Chinese
2%	United Kingdom
1%	Australian
3%	Other
15%	Unspecified

Total Fixed Remuneration (including part time and casual)



3%	<40,000
17%	40,000-54,999
30%	55,000-79,999
22%	80,000-99,999
19%	100,000-149,999
9%	>150,000

Performance and Engagement Measures

ON AIR ENGAGEMENT

Average monthly cumulative audience across all TVNZ channels:

3,730,317

More than 3.7 million people aged 5 + watched a TVNZ channel in an average month during FY2016 – 88% of all New Zealanders 5+.

ONLINE PERFORMANCE

Streams across all devices:

128 million

Online performance across OnDemand and 1 NEWS NOW – streams across all devices delivered a massive 128 million, up from 97 million in FY2015.

TVNZ ONDEMAND REGISTRATIONS

as at June 30th 2016

1.2 million

REFLECTING MAORI PERSPECTIVES

TVNZ screens more than 7 hours per week of dedicated Maori programming - Te Karere, Waka Huia, and Marae. On average...

545,000

New Zealanders tuned into at least one of these programmes each week during FY2016.

Source: Nielsen TAM, Brightcove Analytics

Compliance with Standards and Codes

Through the process of Formal Complaints, our viewers play an influential part in the maintenance of broadcasting standards.

The Broadcasting Standards Authority (BSA) is responsible under the Broadcasting Act 1989 for administering standards in programming and presentation of programming. All formal complaints must be first made in writing to the Broadcaster (with the exception of allegations of privacy). Complainants may refer their complaint to the BSA if they are not satisfied with the outcome of the TVNZ process.

Since 1 July 2013 unique online News and Current Affairs material has been regulated by OMSA (the Online Media Standards Authority), complaints are made directly to OMSA (there is no referral process).

In the period under review, TVNZ answered 1069 formal complaints to the BSA

- 4 less than in the previous year.
- Of these 1069 complaints, 40 complaints were upheld by the TVNZ Complaints Committee.

In the same period OMSA considered 9 complaints about TVNZ material.

- Seven complaints were found to have no grounds to proceed; one settled and one complaint was withdrawn.

2013

792 complaints
- 35 upheld

2014

711 BSA complaints
- 27 upheld

3 OMSA complaints
- 2 no grounds to proceed
- 1 settled

2015

1073 BSA complaints
- 82 upheld

4 OMSA complaints
- 1 no grounds to proceed
- 1 no jurisdiction
- 2 settled

2016

1069 BSA complaints
- 40 upheld

9 OMSA complaints
- 7 no grounds to proceed
- 1 withdrawn
- 1 settled.

In FY2016 the BSA handled 40 referrals about TVNZ programming (referrals are counted per BSA decision). Of these 2 have been upheld by the BSA*.

2013

57 referred
- 5 upheld

2014

46 referred
- 3 upheld

2015

41 referred
- 5 upheld

2016

40 referred
- 2 upheld*

* 5 referrals yet to be determined by the BSA

New Zealand's Top 20 Programmes

Watched By All People 5+

Count	Programme	Channel	Average Audience	Ratings
1	1 NEWS	TVNZ 1	676,600	15.9%
2	Fair Go Ad Awards 2015	TVNZ 1	627,300	14.9%
3	Fair Go	TVNZ 1	612,200	14.4%
4	Mrs. Brown's Boys	TVNZ 1	611,400	14.6%
5	Hyundai Country Calendar	TVNZ 1	577,900	13.6%
6	Sunday	TVNZ 1	570,200	13.4%
7	Dog Squad	TVNZ 1	557,100	13.3%
8	Highway Cops	TVNZ 1	552,700	13.1%
9	Dog Squad	TVNZ 1	545,600	12.8%
10	Doctor Foster	TVNZ 1	542,600	12.7%
11	Border Security International	TVNZ 1	530,000	12.6%
12	Gloriavale Life & Death	TVNZ 2	523,300	12.5%
13	Border Security	TVNZ 1	522,100	12.3%
14	The Force	TVNZ 1	513,900	12.2%
15	Topp Country	TVNZ 1	512,400	12.2%
16	Purina Pound Pups To Dog Stars	TVNZ 1	508,200	12.1%
17	Coast New Zealand	TVNZ 1	503,700	11.7%
18	Secret Life of Pets	TVNZ 1	502,900	11.7%
19	Keeping Up With The Kaimanawas	TVNZ 1	487,900	11.6%
20	Mastermind New Zealand	TVNZ 1	487,300	11.4%

Source: Nielsen TAM, Consolidated 1 July 15 - 30 June 16.
Note: Excluding two event screenings - RWC 2015 Final and Closing Ceremony, International Rugby Bledisloe Cup.

New Zealand's #1

Consolidated Financial Statements

For the year ended 30 June 2016

Statement of Responsibility

For the year ended 30 June 2016

The Board and management of Television New Zealand Limited are responsible for:

- The preparation of these financial statements and the judgements used in them.
- Establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting.

In the opinion of the Board and management these financial statements fairly reflect the financial position of Television New Zealand Limited as at 30 June 2016 and its financial performance and cash flows for the year ended on that date.

The Directors have pleasure in presenting the following financial statements for the year ended 30 June 2016.

For and on behalf of the Board,

Joan Withers
Chair

Alison Gerry
Chair, Audit and Risk Committee

30 September 2016

Consolidated Income Statement

For the year ended 30 June 2016

	Notes	2016 $000	2015 $000
Revenue			
Operating revenue	4	319,641	333,931
Government funding	4, 17	4,948	8,547
Interest income		1,421	2,010
Gain on sale of property, plant and equipment		65	5,504
		326,075	349,992
Expenses			
Programme amortisation	12	(177,140)	(186,183)
Employee benefits (excl benefits charged to programmes/capitalised)	5	(47,728)	(50,450)
Depreciation and amortisation	5	(15,558)	(14,055)
Transmission, technology and telecommunications		(19,544)	(19,822)
Premises and occupancy		(7,697)	(7,862)
Marketing		(10,095)	(8,725)
Other		(25,564)	(26,579)
		(303,326)	(313,616)
Earnings before interest expense, impairments, financial instruments, joint venture and tax		22,749	36,316
Interest expense		(90)	(92)
Asset impairment	6	0	(486)
Financial instruments/foreign currency (losses)/gains	7	(4,790)	912
Share of results of joint venture	14	(38)	0
Profit before income tax		17,831	36,650
Income tax expense	8	(5,144)	(8,535)
Profit for the year		12,687	28,115

The accompanying notes form part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2016

	2016 $000	2015 $000
Profit for the year	12,687	28,115
Other comprehensive income for the year net of income tax	0	0
Total comprehensive income for the year	12,687	28,115

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2016

	Share capital $000	Retained earnings $000	Total $000
At 1 July 2015	**140,000**	**64,277**	**204,277**
Profit for the year	0	12,687	12,687
Other comprehensive income net of income tax	0	0	0
Total comprehensive income for the year	0	12,687	12,687
Equity transactions			
Dividend paid in the year	0	(8,272)	(8,272)
At 30 June 2016	**140,000**	**68,692**	**208,692**
At 1 July 2014	**140,000**	**36,162**	**176,162**
Profit for the year	0	28,115	28,115
Other comprehensive income net of income tax	0	0	0
Total comprehensive income for the year	0	28,115	28,115
Equity transactions			
Dividend paid in the year	0	0	0
At 30 June 2015	**140,000**	**64,277**	**204,277**

The accompanying notes form part of these financial statements.

Consolidated Statement of Financial Position

As at 30 June 2016

	Notes	2016 $000	2015 $000
ASSETS			
Current assets			
Cash and cash equivalents	9	44,812	51,669
Trade and other receivables	10	47,996	52,150
Programme rights - intangible assets	12	46,077	43,306
Derivative financial instruments	19	273	1,727
Inventories		29	43
Total current assets		139,187	148,895
Non-current assets			
Property, plant and equipment	11	110,943	91,037
Other intangible assets	12	18,660	27,345
Deferred tax asset	8	316	1,948
Derivative financial instruments	19	51	1,433
Investment in joint venture	14	112	0
Total non-current assets		130,082	121,763
Total assets		269,269	270,658
LIABILITIES			
Current liabilities			
Bank overdraft	15	91	1,407
Trade and other payables	16	52,812	58,458
Deferred income	17	1,921	3,266
Derivative financial instruments	19	2,605	355
Provisions	18	1,099	1,658
Total current liabilities		58,528	65,144
Non-current liabilities			
Employee entitlements	16	1,071	1,230
Derivative financial instruments	19	978	7
Total non-current liabilities		2,049	1,237
Equity			
Share capital	21	140,000	140,000
Retained earnings		68,692	64,277
Total equity		208,692	204,277
Total equity and liabilities		269,269	270,658

The accompanying notes form part of these financial statements.

For and on behalf of the Board, who authorised the issue of these financial statements on 30 September 2016.

Joan Withers
Chair

Alison Gerry
Chair, Audit and Risk Committee

Consolidated Statement of Cash Flows

For the year ended 30 June 2016

	Notes	2016 $000	2015 $000
Cash flows from/(used in) operating activities			
Receipts from customers		321,211	339,317
Receipt of government grants		5,402	7,674
Interest received		1,434	1,993
Payments to suppliers and employees		(293,785)	(290,884)
Interest paid		(90)	(92)
Income tax paid		(6,700)	(8,799)
Net cash flows from/(used in) operating activities	22	27,472	49,209
Cash flows from/(used in) investing activities			
Proceeds from sale of property, plant and equipment		77	9,925
Purchase of property, plant and equipment		(20,504)	(40,869)
Purchase of intangibles		(4,202)	(16,872)
Investment in joint venture		(150)	0
Net cash flows from/(used in) investing activities		(24,779)	(47,816)
Cash flows from/(used in) financing activities			
Dividends paid		(8,272)	0
Net cash flows from/(used in) financing activities		(8,272)	0
Net increase/(decrease) in cash and cash equivalents		(5,579)	1,393
Net foreign exchange differences		38	154
Cash and cash equivalents at the beginning of the year		50,262	48,715
Cash and cash equivalents at the end of the year	9	44,721	50,262

The accompanying notes form part of these financial statements.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2016

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 the Group in any way.

These consolidated financial statements were approved for issue by the Board of Directors on 30 September 2016.

2. Significant accounting policies

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below. Where an accounting policy is specific to one note, the policy is described in the note to which it relates. These policies have been consistently applied to all periods presented, unless otherwise stated.

a) Basis of preparation

The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand (NZ GAAP) and the requirements of the Television New Zealand Act 2003, Financial Reporting Act 2013 and the Companies Act 1993. For the purposes of complying with NZ GAAP the entity is a for-profit entity. The consolidated financial statements have been prepared on a historical cost basis except for derivative financial instruments that have been measured at fair value, and assets and liabilities that are designated in a fair value hedge relationship.

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

The consolidated financial statements provide comparative information in respect of the previous period. The classifications of certain balances have been revised to better reflect the Group's revenue and expenditure and the comparatives have been restated accordingly. These reclassifications have no impact on the overall financial performance or financial position of the comparative year.

b) Statement of compliance

The consolidated financial statements of the Group comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable Financial Reporting Standards, as appropriate for profit orientated entities. The consolidated financial statements comply with International Financial Reporting Standards (IFRS).

The accounting policies set out in these notes to the financial statements have been applied consistently to all periods presented in these financial statements, unless otherwise stated.

c) Basis of consolidation

The consolidated financial statements comprise the financial statements of Television New Zealand Limited and its subsidiaries at 30 June.

Subsidiaries are those entities controlled, directly or indirectly, by the Group. The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intercompany transactions, balances and unrealised surpluses and deficits on transactions between Group companies are eliminated on consolidation.

Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group. The acquisition of subsidiaries is accounted for using the acquisition method of accounting.

d) Changes in accounting policies and disclosures

Accounting standards and interpretations issued but not yet effective

Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ending 30 June 2016. These are noted below.

NZ IFRS 9 – Financial Instruments

NZ IFRS 9 Financial Instruments, bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The group has not yet assessed the impact of this standard. The application date for this standard is for accounting periods beginning on or after 1 January 2018, the application date for the Group is 1 July 2018.

NZ IFRS 15 – Revenue from contracts with customers

NZ IFRS 15 Revenue from contracts with customers establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The core principle of NZ IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

An entity recognises revenue in accordance with that core principle by applying the following steps:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

The Group has not yet assessed the impact of this standard. The application date for this standard is for accounting periods beginning on or after 1 January 2018, the application date for the Group is 1 July 2018.

NZ IFRS 16 – Leases

NZ IFRS 16 Leases removes the classification of leases as either operating or finance leases – for the lessee – effectively treating all leases as finance leases. The group has not yet assessed the impact of this standard. The application date for this standard is for accounting periods beginning on or after 1 January 2019, the application date for the Group is 1 July 2019.

3. Significant accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Estimates and assumptions are reviewed by management on an on going basis. Actual results may differ from these estimates.

Management has identified the following accounting policies for which significant judgements, estimates and assumptions are made:

- Income taxes and deferred taxes – refer Note 8
- Estimation of useful lives of property, plant and equipment and finite-lived intangible assets – refer Note 11 and Note 12
- Capitalised development costs – refer Note 12

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2016

4. Operating revenue and Government funding

Accounting policy

Revenue is stated exclusive of goods and services tax (GST) and consists of sales of goods and services to third parties. Revenue from the sale of goods and services is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Key classes of revenue are recognised on the following basis:

Advertising and sponsorship revenue is recognised as income at the time of transmission. Advertising revenue includes revenue from advertising, sponsorship and programme production funding on TVONE, TV2, Duke, TVNZ OnDemand, tvnz.co.nz and TVNZ Heartland (to 31 May 2015).

Other trading revenue is recognised when the product has been delivered or in the accounting period in which the actual service has been provided. Other trading revenue includes revenue from production facilities, programme sales, commercial licensing, multi feed service and subscription television (to 30 April 2016).

Government funding is recognised initially as deferred income when there is reasonable assurance that it will be received and that the Group will comply with the conditions associated with the funding. Funding that compensate the Group for expenses incurred are recognised as income on a systematic basis in the same periods in which the expenses are recognised.

	2016	**2015**
	$000	$000
Advertising revenue	303,902	314,192
Other trading revenue	15,739	19,739
	319,641	333,931
Government funding	4,948	8,547

	2016 $000	2015 $000
5) Expenses		
Additional information in respect of expenses included within the Statement of Financial Performance is as follows:		
Expenses include:		
Employee benefits expense		
Wages and salaries and other short term benefits	72,834	78,026
Defined contribution superannuation expense	2,654	2,726
Less employee benefits charged to programmes/capitalised	(27,760)	(30,302)
	47,728	50,450
Depreciation and amortisation		
Depreciation	9,671	9,107
Amortisation - software	5,803	4,865
Amortisation - licences	84	83
	15,558	14,055
Auditor's remuneration		
Audit of financial statements	278	278
Other assurance engagements	15	39
Other non audit services	20	11
	313	328
Other non audit services consist of remuneration benchmarking services		
Reorganisation costs		
Reorganisation costs	3,389	3,684

Costs associated with the reorganisation of parts of the Group have been fully recognised in the current financial year. These costs include redundancy, outplacement and other costs associated with changes in operational areas of the business to align with the Group strategy and technology changes.

	2016 $000	2015 $000
Rental and operating lease costs		
Rental and operating lease costs	4,659	5,621

Operating lease payments, where the lessors substantially retain all the risks and benefits of ownership of the leased items, are recognised as an expense in the income statement on a straight-line basis over the lease term.

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2016

	2016 $000	2015 $000
6) Asset impairment		
Television Centre asset impairment	0	486

The Group has undertaken an extensive refurbishment of its building at 100 Victoria Street West, Auckland. Plant and equipment associated with Phase 2 of the refurbishment that no longer had income generating capacity was impaired to nil value in the prior year.

7) Financial instruments and foreign currency (losses) / gains

Accounting policy
Transactions in foreign currencies are translated to the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rates ruling at balance date.

Differences arising on the translation of monetary assets and liabilities in foreign currencies are recognised in the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

	2016	2015
Fair value changes of derivative financial instruments	(6,057)	1,124
Foreign currency unrealised gains/(losses)	1,395	(649)
Foreign currency realised gains/(losses)	(128)	437
	(4,790)	912

8) Income tax

Accounting policy
Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes, and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future.

Deferred tax assets are recognised where realisation of the asset is probable.

Deferred tax is measured at the tax rates that are expected to apply when the temporary differences reverse, based on tax rates (and tax law) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Judgements and estimates
The Group's accounting policy for taxation requires management to make estimates as to, amongst other things, the amount of tax that will be payable, the availability of losses to be carried forward and the recovery of deferred tax assets.

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences.

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2016

	2016	2015
	$000	$000
8) Income tax (continued)		
a) Income tax		
The major components of income tax expense are:		
Income statement		
Current income tax		
Current period	3,512	10,042
Adjustments for prior year	0	(289)
	3,512	9,753
Deferred income tax		
Origination and reversal of temporary differences	1,632	(602)
Change in asset use intention	0	(616)
	1,632	(1,218)
Total income tax expense	5,144	8,535
b) Reconciliation of income tax expense		
Profit before income tax for the year	17,831	36,650
Taxation at 28%	4,993	10,262
Adjusted for the tax effect of:		
Non deductible expenditure	141	124
Non assessable income	0	(946)
Share of results and impairment of joint venture	10	0
Income tax (over)/under provided in prior years	0	(289)
Change in asset use intention	0	(616)
Total tax expense	5,144	8,535

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2016

8) Income tax (continued)

c) Recognised deferred tax assets/(liabilities)

	2016	
	Current income tax $000	Deferred income tax $000
Opening balance	(2,364)	1,948
Charged to income statement - tax expense	(3,512)	(1,632)
Other payments/(receipts)	6,700	0
Closing balance	824	316
Tax expense in income statement		(5,144)
Amounts recognised in the balance sheet:		
Deferred tax asset		316

	2015	
	Current income tax $000	Deferred income tax $000
Opening balance	(1,410)	730
Charged to income statement - tax expense	(9,753)	602
Charged to income statement - change in asset use intention	0	616
Other payments	8,799	0
Closing balance	(2,364)	1,948
Tax expense in income statement		(8,535)
Amounts recognised in the balance sheet: Deferred tax asset		1,948

	Balance sheet	
	2016 $000	**2015** $000
Deferred income tax at 30 June relates to the following:		
Deferred tax assets/(liabilities)		
Programme rights	4,916	5,787
Employee entitlements	2,461	2,639
Property, plant and equipment and software	(7,386)	(7,022)
Provisions	167	436
Doubtful debts	48	9
Other	110	99
	316	1,948

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2016

	2016 $000	2015 $000

8) Income tax (continued)

d) Imputation credit account

	2016 $000	2015 $000
The amount of imputation credits available for use in subsequent reporting periods	32,248	31,985

The subsidiaries of Television New Zealand Limited form part of the same consolidated tax group.

9) Cash and cash equivalents

	2016 $000	2015 $000
Cash at bank and in hand	14,812	26,669
Short term deposits	30,000	25,000
Cash and cash equivalents in the statement of financial position	44,812	51,669
Bank overdrafts used for cash management purposes	(91)	(1,407)
Cash and cash equivalents in the statement of cash flows	44,721	50,262

Cash and short term deposits in the statement of financial position comprise cash at the bank and in hand and short term deposits with an original maturity of three months or less.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash and cash equivalents as defined above, net of outstanding overdrafts.

10) Trade and other receivables

Accounting policy
Trade receivables are recognised and carried at original invoice amount (including GST) and subsequently measured at amortised cost, less an allowance for impairment.

Collectability of trade receivables is reviewed on an ongoing basis and debts that are known to be uncollectible are written off immediately. An allowance for impairment is recognised when there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts more than 90 days overdue are considered objective evidence of impairment.

	2016 $000	2015 $000
Trade receivables	32,642	35,982
Less provision for receivables impairment	(170)	(33)
Prepaid programme rights	11,409	12,199
Prepayments - other	3,291	4,002
Tax receivable	824	0
	47,996	52,150

a) Provision for receivables impairment

Trade receivables are non-interest bearing and are generally on 30-60 day terms. A provision for receivables impairment is recognised when there is objective evidence that the receivable is impaired.

Movements in the provision for receivables impairment	2016 $000	2015 $000
At 1 July	33	42
Charge/(reversal) for the year	150	(5)
Amounts written off	(13)	(4)
At 30 June	170	33

10) Trade and other receivables (continued)

Trade receivables that are less than 90 days overdue are not considered impaired. As at 30 June 2016 trade receivables of $1,230,000 (2015: $1,798,000) were past due but not considered impaired. Direct contact has been made with these debtors and the Group believes that payment will be made in full. Payment terms on these amounts have not been renegotiated however in most cases credit has been stopped until full payment is made. At 30 June, the ageing analysis of trade receivables is as follows:

	2016 $000	2015 $000
Current	31,242	34,151
Up to 30 days overdue	872	1,683
Between 30 and 90 past due not impaired	323	105
Over 90 days overdue - past due not impaired	35	10
Over 90 days overdue - past due considered impaired	170	33
	32,642	35,982

b) Fair value and credit risk

Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value (refer note 20 for details of credit risk).

11) Property, plant and equipment

Accounting policy

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes the cost to acquire the asset and other directly attributable costs incurred to bring the asset to the location and condition for its intended use. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. Items of work in progress are transferred to the appropriate class of property, plant and equipment on completion. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Depreciation is calculated on a straight-line basis to allocate the cost of assets over their estimated useful lives. Land and work in progress is not depreciated.

The estimated useful lives for the current and comparable period are:

Buildings	up to 40 years
Plant and equipment	2 to 20 years
Motor vehicles	5 to 10 years

Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit the asset belongs to. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash generating units are written down to their recoverable amount.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Where an item of property, plant and equipment is derecognised, the gain or loss (calculated as the difference between the net proceeds and the carrying value of the item) is included in the income statement in the period the item is derecognised.

Judgements and estimates

The estimated useful life of a particular asset is based on historical experience, the expected service potential of the asset and technological advances. Adjustments to useful lives are made when considered necessary.

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2016

11) Property, plant and equipment (continued)

	Land & buildings $000	Plant & equipment $000	Motor vehicles $000	Work in progress $000	Total $000
Year ended 30 June 2016					
At 1 July 2015 net of accumulated depreciation and impairment	34,267	16,738	161	39,871	91,037
Additions	358	3,781	0	18,450	22,589
Transfers from WIP	0	5	0	(5)	0
Reclassification from Software WIP	0	7,000	0	0	7,000
Disposals	0	(12)	0	0	(12)
Depreciation charge	(2,057)	(7,576)	(38)	0	(9,671)
Closing net book amount	32,568	19,936	123	58,316	110,943
At 30 June 2016					
Cost	77,100	134,550	415	58,316	270,381
Accumulated depreciation and impairment	(44,532)	(114,614)	(292)	0	(159,438)
	32,568	19,936	123	58,316	110,943
Year ended 30 June 2015					
At 1 July 2014 net of accumulated depreciation and impairment	36,748	15,925	517	4,759	57,949
Additions	83	5,263	36	35,487	40,869
Transfers from WIP	364	2,313	0	(2,677)	0
Reclassification from Software WIP	0	0	0	2,302	2,302
Disposals	(94)	(92)	(304)	0	(490)
Depreciation charge	(2,348)	(6,671)	(88)	0	(9,107)
Impairment	(486)	0	0	0	(486)
Closing net book amount	34,267	16,738	161	39,871	91,037
At 30 June 2015					
Cost	77,072	127,456	415	39,871	244,814
Accumulated depreciation	(42,805)	(110,718)	(254)	0	(153,777)
	34,267	16,738	161	39,871	91,037

Work in progress
Work in progress includes $56,104,000 related to the refurbishment of 100 Victoria Street West.

Market value of land and buildings
The Group is undertaking an extensive refurbishment of its building at 100 Victoria Street West, Auckland. The Group has received an "As if Complete" market valuation of land and buildings of $118,600,000, prepared by CBRE, including land valued at $42,000,000 (book value $12,000,000). The "As if Complete" valuation of buildings is similar to the forecasted book value of buildings once the building refurbishment is complete.

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2016

12) Intangible assets

Accounting policy - Programme rights
Television programmes which are available for use, including those acquired overseas, are recorded at cost less amounts charged to the income statement based on management's assessment of the useful life, which is regularly reviewed and additional write downs are made as considered necessary. Programmes produced internally for the purpose of broadcast are initially recognised as intangible assets at production cost. Production costs only include direct costs associated with the programme.

Programme rights are amortised on the following basis:
(i) Certain programme rights including news and current affairs, sports and locally commissioned programmes are amortised on transmission.

(ii) All other programme rights (movie and non movie programme rights) are amortised on a straight line basis such that all rights are amortised within a period not exceeding one year from the broadcast licence period start date.

Frequency licences
Frequency licences are recorded at cost less amortisation and impairment losses. Amortisation is calculated on a straight line basis over the period of the licence, 20 years.

Other intangible assets
Acquired software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific asset. These costs are amortised on a straight line basis over their estimated useful economic lives of two to ten years.

Development costs
Development costs on internal projects are only capitalised by the Group when the following can be demonstrated:

- the technical feasibility of completing the intangible asset so that the asset will be available for use or sale
- its intention to complete and use or sell the asset
- how the asset will generate future economic benefits
- the availability of resources to complete the asset
- the ability to measure reliably the expenditure during development.

Any development costs capitalised are amortised over the period of the estimated economic life of the asset to which they relate.

Where an intangible asset is derecognised, the gain or loss (calculated as the difference between the net proceeds and the carrying value of the item) is included in the income statement in the period the item is derecognised.

Judgements and estimates
Development costs are only capitalised by the Group when it can be demonstrated that the technical feasibility of completing the intangible asset is valid so that the asset will be available for use. Actual results may differ from these estimates as a result of reassessment by management or taxation authorities.

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2016

12) Intangible assets (continued)

	Programme rights $000	Software $000	Licences $000	Total $000
Year ended 30 June 2016				
At 1 July 2015 net of accumulated amortisation and impairment	43,306	25,807	1,538	70,651
Additions (internally generated)	43,370	0	0	43,370
Additions (externally purchased)	136,541	4,202	0	140,743
Reclassification to PPE WIP	0	(7,000)	0	(7,000)
Amortisation charge	(177,140)	(5,803)	(84)	(183,027)
Closing net book amount	46,077	17,206	1,454	64,737
At 30 June 2016				
Cost	227,750	72,616*	1,670	302,036
Accumulated amortisation	(181,673)	(55,410)	(216)	(237,299)
	46,077	17,206	1,454	64,737
Current asset	46,077	0	0	46,077
Non-current asset	0	17,206	1,454	18,660
	46,077	17,206	1,454	64,737
Year ended 30 June 2015				
At 1 July 2014 net of accumulated amortisation and impairment	44,612	16,102	1,621	62,335
Additions (internally generated)	48,611	0	0	48,611
Additions (externally purchased)	136,266	16,872	0	153,138
Reclassification to PPE WIP	0	(2,302)	0	(2,302)
Amortisation charge	(186,183)	(4,865)	(83)	(191,131)
Closing net book amount	43,306	25,807	1,538	70,651
At 30 June 2015				
Cost	223,862	76,146*	1,670	301,678
Accumulated amortisation	(180,556)	(50,339)	(132)	(231,027)
	43,306	25,807	1,538	70,651
Current asset	43,306	0	0	43,306
Non-current asset	0	25,807	1,538	27,345
	43,306	25,807	1,538	70,651

*Included in software are assets under development of $2,808,000 (2015: $15,539,000).

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2016

13) Group companies

The Group consists of Television New Zealand Limited and its subsidiaries.

Subsidiaries of Television New Zealand Limited comprise:

		% holding	
Name	Principal activity	**2016**	**2015**
Freeview Television Limited	Non trading	100%	100%
nzoom Limited	Non trading	100%	100%
TVNZ International Limited	Non trading	100%	100%
TVNZ Investments Limited	Non trading	100%	100%
TVNZ Satellite Services Limited*	Non trading	0%	100%
Horizon Pacific Television Limited*	Non trading	0%	100%
Auckland Regional Television Limited*	Non trading	0%	100%
Freesat Limited*	Non trading	0%	100%
Freesat Television Limited*	Non trading	0%	100%

All companies are incorporated in New Zealand. All have balance dates of 30 June.

*These companies were deregistered in July 2015.

14) Interest in joint ventures

Accounting policy

The Group's interest in a joint venture is accounted for in the consolidated financial statements using the equity method of accounting and is carried at cost by the parent entity. Under the equity method, the Group's share of the profits or losses of the joint venture is recognised in the income statement and the share of movements in other comprehensive income is recognised in the statement of other comprehensive income. The cumulative movements are adjusted against the carrying amount of the investment.

Name	Principal activity	**2016**	**2015**
Freeview Limited	Free to air digital platform	44.9%	44.9%
Kpex Limited	Advertising services	25.0%	0.0%

Movement in carrying amount of the Group's investment in joint ventures		
At 1 July	0	0
Increase in investment	150	0
Share of losses after income tax	(38)	0
At 30 June	112	0

To the knowledge of the Directors, there are no contingent liabilities relating to the Group's interest in the joint venture and no contingent liabilities or capital commitments of the ventures themselves.

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2016

15) Bank overdraft and borrowings

Accounting policy
Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost using the effective interest method. Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. All other borrowing costs are expensed in the period they occur.

	2016 $000	2015 $000
Current assets		
Bank overdraft (unsecured)	91	1,407

The Group has a revolving cash advance facility committed to a maximum amount of $20 million (June 2015: $20 million); these facilities expire in December 2016. There were no borrowings on this facility during the year. Refer Note 21 for details on management of interest rate risk related to borrowings.

a) Fair values
As at 30 June the carrying amount of the Group's current and non-current borrowings approximate their fair value.

b) Defaults and breaches
During the current and prior years, there were no defaults or breaches of any loan covenants.

16) Trade and other payables

Accounting policy
Trade and other payables are carried at amortised cost and due to their short term nature they are not discounted. Trade and other payables are recognised when the Group becomes obliged to make future payments resulting from the purchases of goods and services.

Provision is made for employee benefits accumulated as a result of employees rendering services up to balance date. The benefits include wages and salaries, incentives, compensated absences and retirement leave which are expensed in the income statement when services are provided or benefits vest with the employee. The provision for employee benefits is stated at the present value of the estimated future cash outflows to be incurred resulting from employees' services provided up to balance date.

	2016 $000	2015 $000
Current		
Trade payables and accruals	47,079	49,324
Employee entitlements	5,733	6,770
Tax payable	0	2,364
	52,812	58,458
Non-current		
Employee entitlements	1,071	1,230

The carrying value of trade and other payables is assumed to approximate their fair value.

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2016

	2016 $000	2015 $000
17) Deferred income		
Government funding	698	940
Other	1,223	2,326
	1,921	3,266

Government funding received during the year was in the form of cash, and has been recorded at fair value. New Zealand On Air (NZOA) and Te Mangai Paho (TMP) provide funding for the production and broadcast of specific programmes. The Ministry for Culture and Heritage (MCH) provided funding to TVNZ to provide transmission of TVNZ programmes to Pacific nations, this funding ended on 30 September 2015 when the service was transferred to a new provider.

The funding will be recognised in the income statement to match the expenditure associated with this funding.

18) Provisions

Accounting policy
Provisions are recognised when the Group has present legal or constructive obligations as a result of a past event that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

If the effect of time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Movement in provisions

	Reorganisation $000
At 1 July 2015	1,658
Raised during the year	1,099
Utilised during the year	(1,658)
At 30 June 2016	1,099
Current	1,099
Non-current	0
At 30 June 2016	1,099
Current 2015	1,658
Non-current 2015	0
At 30 June 2015	1,658

Nature and timing of provision
The reorganisation provision balance relates to the costs of redundancy, outplacement and other costs associated with changes in operational areas of the business to align with the Group strategy and technology changes.

19) Derivative financial instruments

Accounting policy
The Group uses derivative financial instruments, within predetermined policies and limits, to manage its exposure to foreign currency exchange rate risk and interest rate risk. The Group also enters into programme supply contracts that contain a foreign currency embedded derivative.

Such derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative contract is designed to hedge a specific risk and qualifies for hedge accounting.

Each derivative that is designated as a hedge is classified as either: i) a fair value hedge when it hedges the exposure to changes in the fair value of a recognised asset or liability or a firm commitment; or ii) a cash flow hedge where it hedges the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

i) Fair value hedge
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

ii) Cash flow hedge
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised in the income statement. Amounts accumulated are recycled in the income statement in the period when the hedged item affects profit or loss. When the hedged firm commitment results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability.

Hedge accounting is discontinued when the hedging instrument expires or is sold, or when the hedge no longer meets the criteria for hedge accounting. At that point any cumulative gain or loss existing in equity remains in equity until the forecast transaction occurs. When a forecasted transaction is no longer expected to occur, the cumulative gain or loss is immediately transferred to the income statement.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are recognised immediately in the income statement. The fair value of forward exchange contracts and embedded derivatives are calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

In accordance with its treasury policy, the Group does not engage in speculative transactions or hold derivative financial instruments for trading purposes.

	2016	**2015**
	$000	$000
Current assets		
Forward currency contracts - held for trading	0	1,696
Forward currency contracts - fair value hedge	22	31
Foreign currency embedded derivative contracts	251	0
	273	1,727
Non-current assets		
Forward currency contracts - held for trading	0	1,433
Forward currency contracts - fair value hedge	38	0
Foreign currency embedded derivative contracts	13	0
	51	1,433

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2016

19) Derivative financial instruments (continued)

	2016 $000	2015 $000
Current liabilities		
Forward currency contracts - held for trading	2,583	0
Forward currency contracts - fair value hedge	22	31
Foreign currency embedded derivative contracts	0	324
	2,605	355
Non-current liabilities		
Forward currency contracts - held for trading	940	0
Forward currency contracts - fair value hedge	38	0
Foreign currency embedded derivative contracts	0	7
	978	7

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.

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.

	2016 NZD $000	2015 NZD $000
Buy AUD/Sell NZD - Maturity 0-12 months	58,652	56,333
Buy AUD/Sell NZD - Maturity 13 - 24 months	34,603	40,626

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.

Forward currency contracts – fair value hedge		
Buy AUD/Sell NZD - Maturity 0 - 12 months	1,079	1,158
Buy AUD/Sell NZD - Maturity 13 - 24 months	1,406	0
Buy USD/Sell NZD - Maturity 0-12 months	0	48

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.

Embedded derivatives		
Sell AUD/Buy NZD - Maturity 0 - 12 months	11,341	4,414
Sell AUD/Buy NZD - Maturity 13 - 24 months	219	271

20) Financial risk factors

The Group's activities expose it to a variety of financial risks including currency risk, interest rate risk, credit risk and liquidity risk. The Group's overall risk management policy seeks to minimise potential adverse effects on the Group's financial performance.

Treasury policies have been approved by the Board for managing each of these risks including levels of authority on the type and use of financial instruments. The Group enters into derivative transactions, principally forward currency contracts and interest rate swaps, only if they relate to underlying exposures.

The Group has the following categories of financial instruments:
Held for trading financial assets (including derivative financial instruments); loans and receivables (including cash and cash equivalents and trade receivables); held for trading financial liabilities (including derivative financial instruments); and financial liabilities measured at amortised cost (including trade and other payables and loans and borrowings).

The carrying amounts of these financial instruments are disclosed on the face of the statement of financial position or in each of the applicable notes.

Currency risk
The Group undertakes transactions denominated in foreign currencies, predominately Australian dollars, for programme rights' purchases. As a result of these transactions the Group has exposure to foreign exchange risk. The Group's foreign exchange policy is to hedge a portion of material foreign currency denominated costs at the time of the commitment on a rolling 24 month basis. The Group ensures that its net exposure to foreign denominated cash balances is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short term imbalances.

At 30 June the Group had the following foreign currency exposures.

	2016 $000	2015 $000
Financial assets		
Cash and cash equivalents	187	633
Trade and other receivables	76	274
	263	907
Financial liabilities		
Trade and other payables	(14,426)	(14,557)
	(14,426)	(14,557)
Foreign currency derivatives		
Forward contracts	93,255	97,007
Embedded derivatives	(11,560)	(4,685)
	81,695	92,322
Total net exposure	67,532	78,672

At 30 June, had the New Zealand dollar strengthened/(weakened) by 10% against foreign currencies with all other variables held constant, post tax profit and equity would have been (lower)/higher as follows:

	Post tax profit		Equity	
	+10%	(10%)	+10%	(10%)
2016	(4,604)	4,604	0	0
2015	(5,801)	5,801	0	0

Interest rate risk
The Group's exposure to interest rate risk relates primarily to cash equivalents and borrowings.

At 30 June, the Group had the following mix of financial assets and liabilities exposed to variable interest rate risk.

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2016

20) Financial risk factors (continued)

	2016 $000	2015 $000
Financial assets		
Cash and cash equivalents	44,812	51,669
Financial liabilities		
Bank overdrafts	(91)	(1,407)
Net exposure	44,721	50,262

The Group's interest rate policy is to have between 0% and 100% of its borrowings at fixed rates over the medium term. The Group uses interest rate swaps in order to achieve the desired mix between fixed and floating rates. These swaps are designated to hedge underlying debt obligations. No interest rate swaps are held at 30 June 2016 (30 June 2015: nil).

At 30 June, if interest rates had increased/(decreased) by 1% with all other variables held constant, post tax profit and equity would have been (lower)/higher as follows:

	Post tax profit		Equity	
	+1%	(1%)	+1%	(1%)
2016	321	(321)	0	0
2015	367	(367)	0	0

Credit risk
Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its obligations. In the normal course of business the Group incurs credit risk with financial institutions and trade receivables. The Group has a credit policy which is used to limit counterparty risk through restrictions on the amount of short-term investments that may be placed with any one approved financial institution.

The maximum exposure at balance date equals the carrying value of cash, derivative financial instruments (assets) and trade receivables as shown in the statement of financial position and specified in applicable notes.

The major concentration of credit risk within trade receivables is the extension of credit to advertisers through accredited advertising agencies. These agencies are required to comply with a formal accreditation process, which includes the regular review of their financial position. Each accredited agency is required to meet a certain financial ratio or alternatively provide other forms of financial reassurance to the Group. The Group has a credit insurance policy for a selected range of agencies, to protect against loss through default. The Group does not have any other significant concentrations of credit risk.

The Group does not require collateral or security to support financial instruments due to the quality of the counterparties with which it deals.

Liquidity risk
Liquidity risk is the risk that the Group may be unable to meet its financial obligations as they fall due. It is the Group's policy to ensure that adequate funding is available at all times to meet future commitments as they arise. Management monitors rolling forecasts of the Group's liquidity reserve on the basis of expected cash flows.

At 30 June 2016 the Group has available $20,000,000 (2015: $20,000,000) of undrawn committed facilities. These bank facilities expire in December 2016.

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2016

20) Financial risk factors (continued)

The table below analyses the contractual cash flows for all financial liabilities and derivatives. The forward exchange contracts inflow and outflow are notional values.

	2016			
Group	Within one year $000	One to two years $000	Two to five years $000	Total $000
Bank overdraft	91	0	0	91
Trade and other payables	47,079	0	0	47,079
Forward exchange contracts - outflow	59,731	36,009	0	95,740
Forward exchange contracts - inflow	(57,148)	(35,069)	0	(92,217)
	49,753	940	0	50,693

	2015			
Group	Within one year $000	One to two years $000	Two to five years $000	Total $000
Bank overdraft	1,407	0	0	1,407
Trade and other payables	49,324	0	0	49,324
Forward exchange contracts - outflow	57,539	40,626	0	98,165
Forward exchange contracts - inflow	(59,235)	(42,059)	0	(101,294)
	49,035	(1,433)	0	47,602

Fair value

The Group uses various methods in estimating the fair value of a financial instrument. The methods comprise:

Level 1 – the fair value is calculated using quoted prices in active markets.
Level 2 – the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).
Level 3 – the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

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. The fair values of these Level 2 financial instruments are presented in the following table.

	2016 $000	2015 $000
Financial assets		
Derivative instruments		
Foreign currency contracts	60	3,160
Foreign currency embedded derivative contracts	264	0
	324	3,160
Financial liabilities		
Derivative instruments		
Foreign currency contracts	3,583	31
Foreign currency embedded derivative contracts	0	331
	3,583	362

20) Financial risk factors (continued)

Capital management
The Group's capital includes share capital, reserves and retained earnings.

The Crown has a general preference for state-owned enterprises and Crown-entity companies (including TVNZ) to manage their balance sheets to a BBB credit rating. The Group's capital structure is broadly in line with the Crown's expectations. The Group targets a gearing ratio of less than 40% (refer note 28e).

There have been no material changes to the Group's management of capital during the year.

21) Share capital and reserves

For movements in share capital and reserves refer to the Statement of Changes in Equity.

Share capital
As at 30 June 2016 there were 140,000,000 shares ($1 each) issued and fully paid (2015: 140,000,000). All ordinary shares rank equally with one vote per share and carry rights to dividends.

Upon winding up, shareholders rank equally with regard to the Group's residual assets.

22) Cash flow statement reconciliation

	2016 $000	2015 $000
Reconciliation of net profit after tax to net cash flows from operations		
Net profit	12,687	28,115
Adjustments for:		
Depreciation and impairment	9,671	9,593
Amortisation	5,887	4,948
Gain on disposal of property, plant and equipment	(65)	(5,504)
Unrealised foreign currency losses/(gains)	4,662	(475)
Share of associate net results and provisions	38	0
Changes in assets and liabilities		
(Increase)/decrease in trade and other receivables	5,020	1,857
(Increase)/decrease deferred tax asset	1,632	(1,218)
(Increase)/decrease inventories	14	52
(Increase)/decrease programme rights	(2,771)	1,306
Increase/(decrease) trade and other payables	(4,211)	8,968
Increase/(decrease) deferred income	(1,345)	(6)
Increase/(decrease) income tax payable	(3,188)	954
Increase/(decrease) provisions	(559)	619
Net cash from operating activities	27,472	49,209

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2016

23) Related party disclosures

a) Subsidiaries
The consolidated financial statements include the financial statements of Television New Zealand Limited and its subsidiaries, listed in note 13. During the year Television New Zealand Limited made a $150,000 loan to TVNZ Investments (2015: $nil).

b) Joint venture
The following table provides the total amount of transactions that were entered into with Joint Ventures.

	2016 $000	2015 $000
Joint venture		
Revenue from Freeview Limited	741	777
Purchases from Freeview Limited	416	503
Amounts owed by Freeview Limited	351	364
Amounts owed to KPEX Limited	46	0

All transactions with the joint venture arise in the normal course of business on an arm's length basis. None of the balances are secured.

c) Government entities		
Funding from government entities	4,948	8,547
Revenue from government entities	1,341	1,371
Purchases from government entities	8,453	8,624
Amounts owed by government entities	115	595
Amounts owed to government entities	210	248
Revenue in advance from government entities	698	940

All sales and purchases with government owned entities arise in the normal course of business on an arm's length basis. None of the balances are secured.

d) Key management personnel
Key management consists of TVNZ's Chief Executive Officer and the members of the executive team (current and former during the year). Key management personnel compensation is as follows:

Salary and other short term benefits	4,972	4,654
Defined contribution superannuation expense	242	227
	5,214	4,881

e) Directors		
Directors' fees	363	370

Certain Directors are also non-executive directors of companies with which TVNZ has transactions in the normal course of business. Any transactions undertaken with these entities have been entered into on an arm's length commercial basis.

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2016

	2016 $000	2015 $000
24) Commitments		
a) Programme rights		
Within one year	109,240	111,622
One to five years	203,643	122,284
Later than five years	16,300	0
	329,183	233,906

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 year end. The commitments are determined with reference to the licence period start dates.

	2016 $000	2015 $000
b) Operating leases		
Within one year	1,461	5,020
One to five years	1,661	2,474
Later than five years	39	273
	3,161	7,767
c) Property, plant and equipment and software		
Within one year	3,987	15,081

25) Contingent liabilities

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

26) Events after the balance sheet date

On 25 August 2016 the Board of Directors declared a final dividend of $13,370,000, 9.55 cents per share, (2015 – $8,272,000, 5.91 cents per share) to be paid in September 2016.

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

27) Comparison of forecast to actual results

	Actual $000	Forecast $000
a) Financial performance		
Revenue	326,075	328,155
Operating expenses	(303,326)	(306,171)
Earnings before interest, tax, financial instruments and joint venture	22,749	21,984
Interest expense	(90)	(70)
Financial instruments/foreign currency gains/(losses)	(4,790)	0
Share of results of joint venture	(38)	0
Income tax expense	(5,144)	(6,137)
Net profit for the year	12,687	15,777
b) Movements in equity		
Net profit for the year	12,687	15,777
Distributions to the shareholder	(8,272)	(3,572)
Movements in equity for the year	4,415	12,205
Equity at start of the year	204,277	197,923
Equity at end of the year	208,692	210,128

The decline in the television advertising market was greater than expected; this has been partly offset by the Group increasing its market share of the television advertising market. Operating expenses are below forecast levels as the Group continues to implement cost savings initiatives. Fair value changes in financial instruments are not forecasted due to the inherent volatility in exchange rates; there was a loss for the year. The income tax variance is primarily due to decreased profits.

	Actual $000	Forecast $000
c) Financial position		
Current assets	139,187	121,292
Non-current assets	130,082	135,574
Total assets employed	269,269	256,866
Current liabilities	58,528	46,738
Non-current liabilities	2,049	0
Total liabilities	60,577	46,738
Share capital	140,000	140,000
Retained earnings	68,692	70,128
Total equity	208,692	210,128
Total equity and liabilities	269,269	256,866

Certain balance sheet forecasted amounts have been reclassified to give a direct comparison to actual results.

Current assets are above forecast due to greater cash on hand than forecast. Non-current assets are below forecast and reflect the timing of expenditure on the refurbishment of the Auckland Television Centre. Current liabilities are above forecast due to higher levels of payables than forecasted.

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2016

27) Comparison of forecast to actual results (continued)

	Actual $000	Forecast $000
d) Cash flows		
Net cash flows from/(to):		
Operating activities	27,472	18,209
Investing activities	(24,779)	(32,300)
Financing activities	(8,272)	(3,572)
Net (decrease)/increase in cash held	(5,579)	(17,663)
Add opening cash brought forward	50,262	43,394
Net foreign exchange differences	38	0
Ending cash carried forward	44,721	25,731

Lower levels of expenditure, timing of payments to creditors and improved cash collections have resulted in above forecast cash flows from operating activities. Cash flows to investing activities are lower than forecast and reflect the timing of capital expenditure for the year. The dividend from the FY2015 operating result was greater than forecast. These variances have resulted in higher cash holdings at year end.

	Actual	Forecast
e) Performance targets		
Profitability		
Return on average equity	6.1%	7.7%
Gearing		
Net interest bearing debt/net interest bearing debt plus equity	0.0%	< 40%
Financial stability		
Total equity/total assets	77.5%	> 40%
Interest cover		
EBITDA/interest expense	426 times	> 4 times

EBITDA – earnings before interest, tax, depreciation, amortisation and financial instruments.

Forecast Amounts

The forecast amounts are those approved by the Board before the beginning of the 2016 financial year. They have been prepared using the same accounting policies as those used in the preparation of these financial statements. The forecast amounts have not been audited.

Statement of Performance

For the year ended 30 June 2016

This statement reports on the performance of Television New Zealand Limited (TVNZ) in relation to the output targets set in the Statement of Performance for the year ended 30 June 2016.

TVNZ reports under the Crown Entities Act 2004. Under this Act, TVNZ's expectations of revenue and related outputs were stated in the Statement of Performance for the year ended 30 June 2016 for all categories of funding received directly from the Crown.

TVNZ has been granted an exemption under section 143 of the Crown Entities Act from including in its Statement of Performance outputs which are not directly funded (in whole or in part) by the Crown.

a) Transmitting TVNZ programmes to Pacific nations with funding from the Ministry for Culture and Heritage
The transmission funding received by TVNZ was to enable it to transmit programming by satellite to Pacific nations.

TVNZ's contract to provide this service ended in 30 September 2015.

Total funding received from the Ministry for Culture and Heritage: $151,750 (2015: $607,000). Total cost of transmission $169,662. The unspent funding of $370,475 (current and prior years) was transferred to the new provider.

TVNZ undertook to provide a minimum 11 hours transmission of TVNZ programming to Pacific nations weekly, such programming to include the daily transmission of ONE News at 6pm and the weekly transmission of Tagata Pasifika and the transmission of other programmes relevant to the Pacific nations within available funding.

The following Pacific nations receiving programming:

- American Samoa
- Cook Islands
- Fiji
- Nauru
- Niue
- Papua New Guinea
- Samoa
- Solomons
- Tonga
- Vanuatu

The FY2016 programme hours transmitted noted in the table below are for programmes transmitted from July 2015 – September 2015 only. The FY2015 hours are for the full year.

Programmes transmitted	**FY2016** Hours	**FY2015** Hours
ONE News	92.0	364.5
Midday News	33.5	119.0
Seven Sharp	33.0	112.5
The 4:30 Show	33.0	15.0
What Now	26.0	78.0
Code	13.0	0.0
Q & A	13.0	43.0
Dog Squad	6.5	2.0
Marae	6.5	26.5
Praise Be	6.5	26.0
Tagata Pasifika	6.5	27.0
Waka Huia	6.5	25.5
Te Karere	0.0	130.0
Border Patrol	5.0	0.0
2Kaha	4.0	12.5
Oceania Softball Qualifiers	0.0	15.0
Fresh	0.0	12.0
Country Calendar	0.0	12.0
Whanau Living	0.0	10.0
Rapid Response	0.0	9.0
Te Kaea	0.0	25.5
Other	16.7	70.0
Total Hours	301.7	1135.0
Average hours per week	23.2	21.8

Report of the Auditor-General

For the year ended 30 June 2016

Building a better working world

Chartered Accountants

INDEPENDENT AUDITOR'S REPORT
TO THE READERS OF TELEVISION NEW ZEALAND LIMITED GROUP'S FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION FOR THE YEAR ENDED 30 JUNE 2016

The Auditor-General is the auditor of Television New Zealand Limited and its subsidiaries ("the group"). The Auditor-General has appointed me, Brent Penrose, using the staff and resources of Ernst & Young, to carry out the audit of the financial statements and the performance information of the group consisting of Television New Zealand Limited and its subsidiaries, on her behalf.

Opinion on the financial statements and the performance information

We have audited:

- the financial statements of the Group on pages 31 to 60, that comprise the statement of financial position as at 30 June 2016, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance information of the Group on page 61.

In our opinion:

- the financial statements of the Group:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2016; and
    - its financial performance and cash flows for the year then ended; and
  - comply with generally accepted accounting practice in New Zealand and have been prepared in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.
- the performance information:
  - presents fairly, in all material respects, the Group's performance for the year ended 30 June 2016, including:
    - for each class of reportable outputs:
      - its standards of performance achieved as compared with forecasts included in the statement of performance expectations for the financial year; and
      - its actual revenue and output expenses as compared with the forecasts included in the statement of performance expectations for the financial year.
    - complies with generally accepted accounting practice in New Zealand.

Our audit was completed on 30 September 2016. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board and our responsibilities, and explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements and the performance information are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements and the performance information. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the performance information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and the performance information, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the Group's financial statements and performance information in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board;
- the appropriateness of the reported performance information within the group's framework for reporting performance;
- the adequacy of the disclosures in the financial statements and the performance information; and
- the overall presentation of the financial statements and the performance information.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and the performance information. Also, we did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Board

The Board are responsible for preparing financial statements and performance information that:

- comply with generally accepted accounting practice in New Zealand, New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards;
- present fairly the Group's financial position, financial performance and cash flows; and
- present fairly the Group's performance.

The Board's responsibilities arise from the Crown Entities Act 2004, Television New Zealand Act 2003 and Public Finance Act 1989.

The Board are responsible for such internal control as it determines is necessary to enable the preparation of financial statements and performance information that are free from material misstatement, whether due to fraud or error. The Board are also responsible for the publication of the financial statements and the performance information, whether in printed or electronic form.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and the performance information and reporting that opinion to you based on our audit. Our responsibility arises from the Public Audit Act 2001.

Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

In addition to the audit we have carried out other assurance assignments and remuneration benchmarking for the Group which are compatible with those independence requirements.

Other than the audit, other assurance assignments and remuneration benchmarking we have no relationship with or interests in the Group.

BRPenrose

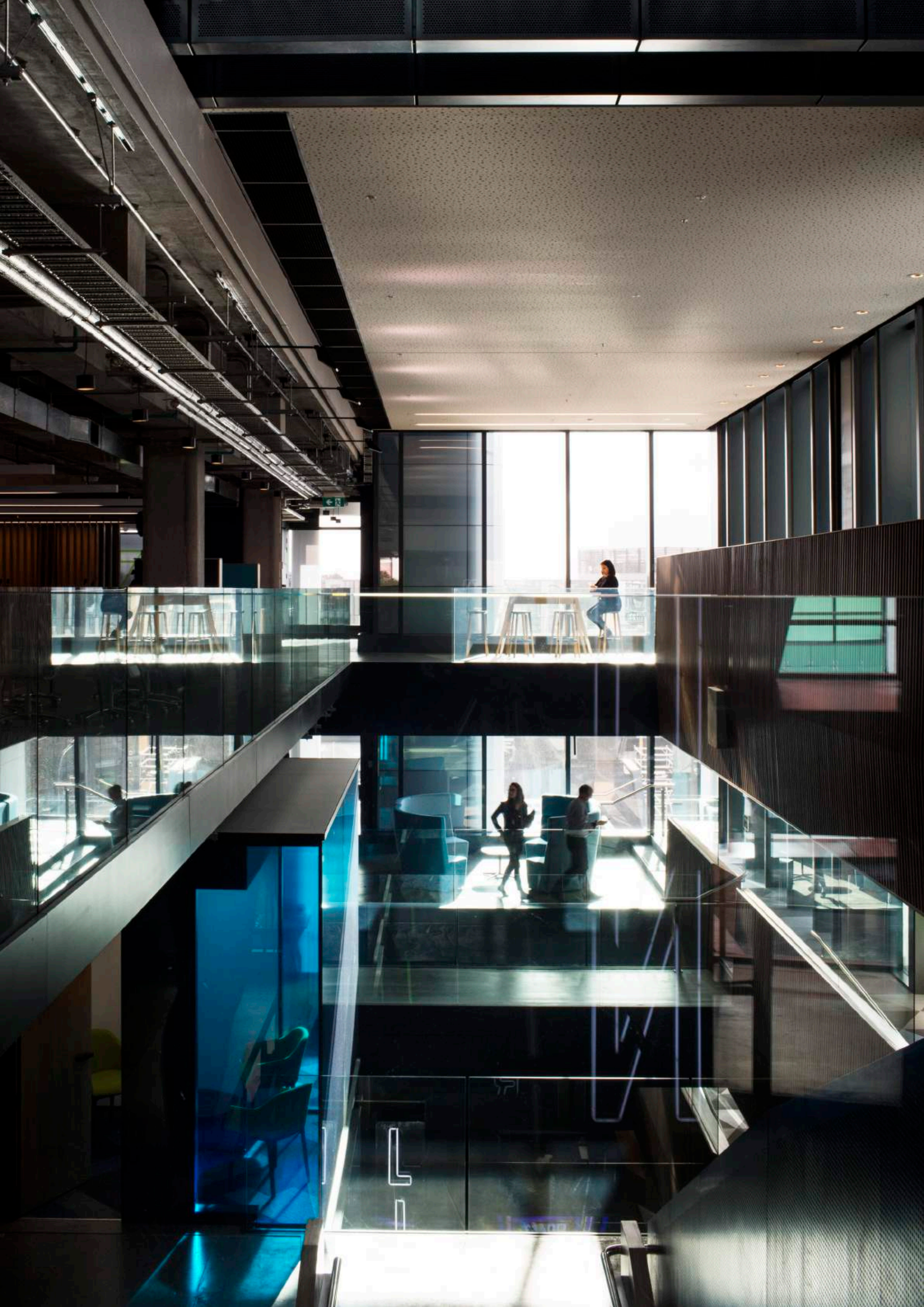
Brent Penrose
Ernst & Young
On behalf of the Auditor-General
Auckland, New Zealand

Five Year Trend Statement

For the year ended 30 June 2016

	2016 $000	2015 $000	2014 $000	2013 $000	2012 $000
Group financial performance					
Advertising revenue	303,902	314,192	319,732	321,532	326,496
Other revenue	22,173	35,800	40,853	40,578	55,341
Total revenue	326,075	349,992	360,585	362,110	381,837
EBITDA	38,307	50,371	50,391	43,276	50,888
Profit for the year	12,687	28,115	18,111	14,440	14,207
Dividends	8,272	0	0	11,287	13,828
Group financial position					
Assets employed:					
Current assets	93,110	105,589	104,249	75,671	71,470
Programme rights	46,077	43,306	44,612	44,439	56,051
Property, plant and equipment (incl held for sale)	110,943	91,037	61,880	74,615	83,484
Other non-current assets	19,139	30,726	18,690	22,673	32,376
Total assets employed	269,269	270,658	229,431	217,398	243,381
Funds employed:					
Share capital	140,000	140,000	140,000	140,000	140,000
Reserves	0	0	0	29	(263)
Retained earnings	68,692	64,277	36,162	18,051	14,898
Total equity	208,692	204,277	176,162	158,080	154,635
Current liabilities	58,528	65,144	51,980	57,274	73,440
Non-current loan and borrowings	0	0	0	0	10,000
Other non-current liabilities	2,049	1,237	1,289	2,044	5,306
Total funds employed	269,269	270,658	229,431	217,398	243,381
Financial ratios					
EBITDA*/Total revenue	11.7%	14.4%	14.0%	12.0%	13.3%
Net surplus after taxation**/equity (average)	6.1%	14.8%	10.8%	9.2%	9.2%
Equity/total assets employed	77.5%	75.5%	76.8%	72.7%	63.5%
Debt/ Debt plus Equity	0.0%	0.0%	0.0%	0.0%	6.1%
Interest cover (times) ***	426	548	202	39	32

* EBITDA: earnings before interest, tax, depreciation, amortisation, programme amortisation revision, impairments, remediation expenses, associate earnings and financial instruments.
** As per reported earnings.
*** EBITDA/Interest expense.



Additional Information

Principal activity
The Group's principal activity during the year was television (programme content supply and delivery, production, acquisition of television programmes, and online services).

Shareholding
The Group is wholly owned by the Crown.

The Shareholding Ministers at balance date were:

Hon Bill English	Minister of Finance
Hon Amy Adams	Minister of Broadcasting

Directors
Richard Long and Roger MacDonnell's terms ended on 30 October 2015 and 30 April 2016 respectively. Tokorangi Kapea and Kevin Malloy were appointed to the Board on 1 January 2016 and 1 May 2016 respectively.

Auditor
The Auditor-General is the auditor of the Group in accordance with Section 14 (1) of the Public Audit Act 2001 and has appointed Brent Penrose of Ernst & Young to act for and on her behalf as auditor in 2016.

General disclosures
The following disclosure of interests were made to the Board:

Directors' disclosures
General disclosures of interest given by Television New Zealand Limited pursuant to Section 211 of the Companies Act 1993 as at 30 June 2016:

Joan Withers (Chair)	
ANZ Bank New Zealand Limited	Director
Louise Perkins Foundation	Trustee
Mercury NZ Limited	Chair
Pure Advantage	Trustee
The Tindall Foundation	Trustee
The Treasury	Member
Alison Gerry	
Asteron Life Limited	Director
Infratil Limited	Director
Kiwibank Limited	Director
New Zealand Clearing and Depository Ltd	Director
NZX Limited	Director
Vero Insurance New Zealand Limited	Director
Vero Liability Insurance Limited	Director
Spark	Director
Tokorangi Kapea	
Bathurst Resources Limited	Chair
B1 Decision Making Committee (as part of B1 Baniima Direct Benefits Trust)	Independent Member
Ngati Apa Developments Limited	Chair
Te Runanga o NgaiTakoto Custodian Limited	Director
Tuia Group Limited	Director
Tuia Group Services Limited	Director
Tuia Legal Partnership	Partner
Kevin Malloy	
Dingle Foundation	Trustee
Halberg Foundation	Trustee
KM54 Ltd	Director

Additional Information (continued)

Directors' disclosures (continued)

Julia Raue

Jade Software Corporation Limited	Director
Rowdy Consulting Limited	Director
Southern Cross Health Society	Director
The Treasury, Risk & Audit Committee	Member
Z Energy Limited	Director

Barrie Saunders

Nil

Sussan Turner

Aspire2 Group	Chief Executive Officer
AUT University	Pro Chancellor
Minerva Holdings Ltd	Director
OI (Organic Initiatives)	Investor & Director
Well Foundation	Trustee

Dame Therese Walsh (Deputy Chair)

Air New Zealand Limited	Director
ASB Bank Limited	Director
International Development Advisory & Selection Panel, MFAT	Chair
NZ Major Events Investment Panel, MBIE	Member
NZ Rugby Union Diversity Committee	Chair
NZX Limited	Director
Strategic Risk and Resilience Panel, DPMC	Member
Victoria University of Wellington	Councillor
Wellington Women's Homeless Trust	Ambassador
Wellington Regional Stadium Trust	Trustee

Additional Information (continued)

Specific disclosures

No specific disclosures were given pursuant to Section 211 of the Companies Act 1993.

Use of Company information

No notices have been given to the Board under Section 145 of the Companies Act 1993 with regard to the use of Company information received by Directors in their capacity as a Director.

Directors' remuneration and benefits

The following persons held the office of Director of the Company during the year and received the total amount of remuneration and other benefits shown.

Director		$
Joan Withers		80,000
Alison Gerry		40,000
Tokorangi Kapea	(appointed 1 January 2016)	20,000
Richard Long	(term ended 30 October 2015)	13,333
Roger MacDonnell	(term ended 30April 2016)	33,333
Kevin Malloy	(appointed 1 May 2016)	6,667
Julia Raue		40,000
Barrie Saunders		40,000
Sussan Turner		40,000
Dame Therese Walsh		50,000
		363,333

Directors' indemnity insurance

The Group has arranged Directors' and Officers' liability insurance cover with QBE Insurance (International) Limited for $30 million. This cover is effected for all Directors and Officers of the Group. In addition the Group holds Statutory Liability cover with QBE for the benefit of directors and officers which provides $6 million total cover.

Chief Executive Remuneration

The TVNZ Board receives executive remuneration market reports from two independent specialist remuneration advisers as input to determining the Chief Executive's remuneration.

The Chief Executive's remuneration is evaluated annually against market rates provided by the remuneration advisers. The short term incentive component is awarded based on performance against a range of financial and non-financial key performance indicators which are set at the commencement of the financial year.

The Chief Executive's fixed remuneration for FY2016 was $825,168.00, including holiday pay paid during the year. The base salary was $800,816.00.

- Short Term Performance Incentive
  - A short term incentive payment of $332,048.00 was made to the Chief Executive in September 2015 which related to his performance against the criteria set for FY2015.
- Superannuation
  - The Chief Executive is a member of Superlife Millennium Super scheme. As a member of this scheme, the Chief Executive is eligible to contribute and receive a matching company contribution of 5% of gross taxable earnings (including short term incentives). For FY2016 the Company's contribution was $57,679.55.

Additional Information (continued)

Employee remuneration

Employee remuneration includes salary, at risk remuneration, payments for projects, programme production, presentation, motor vehicles, employer's contributions to superannuation and health schemes, redundancy, other compensation on termination of employment and other sundry benefits received in their capacity as employees.

Employees include executives and staff involved in programme production and presentation where applicable.

Employee remuneration in overseas locations has been converted to New Zealand dollars at current exchange rates.

	Current employees	Former employees
$100,000 to $110,000	42	4
$110,001 to $120,000	33	3
$120,001 to $130,000	22	0
$130,001 to $140,000	24	2
$140,001 to $150,000	17	4
$150,001 to $160,000	13	1
$160,001 to $170,000	9	5
$170,001 to $180,000	5	1
$180,001 to $190,000	1	2
$190,001 to $200,000	4	1
$200,001 to $210,000	4	1
$210,001 to $220,000	4	0
$220,001 to $230,000	3	2
$230,001 to $240,000	2	0
$240,001 to $250,000	3	0
$250,001 to $260,000	4	0
$260,001 to $270,000	1	0
$270,001 to $280,000	2	1
$280,001 to $290,000	0	1
$290,001 to $300,000	0	1
$300,001 to $310,000	2	0
$310,001 to $320,000	1	1
$350,001 to $360,000	1	0
$370,001 to $380,000	1	0
$380,001 to $390,000	2	0
$410,001 to $420,000	1	0
$430,001 to $440,000	1	0
$450,001 to $460,000	1	0
$460,001 to $470,000	1	0
$510,001 to $520,000	1	0
$520,001 to $530,000	0	1
$540,001 to $550,000	1	0
$570,001 to $580,000	1	0
$590,001 to $600,000	1	0
$630,001 to $640,000	1	0
$1,210,001 to $1,220,000	1	0
	210	31

Employee compensation on termination of employment

During the year $3,769,634 compensation was paid in total to 88 employees whose employment was terminated. Compensation includes redundancy entitlements, payment in lieu of notice and any payments in settlement of disputes.

Directors' Profiles

JOAN WITHERS, CHAIR (AUCKLAND)

Joan Withers has a career in media spanning 30 years which includes holding the Chief Executive roles at both The Radio Network and Fairfax Media.

She is a professional director and is currently Chair at Mercury NZ Ltd (formerly Mighty River Power) and is a director of the ANZ New Zealand bank. From late September 2016 Joan will assume the Chairmanship of The Warehouse Group Ltd. She sits on the Advisory Board of The Treasury and is a trustee of the Louise Perkins Foundation (Sweet Louise) and chairs a steering group in South Auckland which is focused on helping Maori and Pacific Island students attain careers in the health sector.

Joan has an MBA from Auckland University, and is the author of "A Girl's Guide to Business" published in 1998. She was the 2009 recipient of the CAANZ Media Excellence Award, the winner of the New Zealand Shareholders' Association 2014 Beacon Award, an Auckland University Distinguished Alumni, winner of the Supreme Award at the Women of Influence Awards in 2015, and was awarded Deloitte Top 200 Chairperson of the Year in 2015.

DAME THERESE WALSH, DEPUTY CHAIR (WELLINGTON)

Dame Therese is a Director of NZX Limited, ASB Bank Limited, Air NZ Limited, a Trustee of Wellington Regional Stadium Trust, and a member of the Victoria University Council. She also chairs MFAT's International Development Advisory and Selection Panel, is a member of MBIE's Major Events Investment Panel and sits on the Strategic Resilience and Risk Panel for DPMC.

Previously she was the Chief Operating Officer for Rugby New Zealand 2011 Limited, the company established by the NZRU and the New Zealand Government to deliver the Rugby World Cup Tournament in 2011. She is also a previous Director of NZ Cricket and Save the Children NZ, and held a senior role with KPMG. Most recently she held the role of Head of NZ for the ICC Cricket World Cup 2015 Limited. She is a Fellow of Chartered Accountants Australia and NZ.

ALISON GERRY (QUEENSTOWN)

Alison Gerry has over 20 years' experience working for both corporates and for financial institutions in trading, finance and risk roles in Sydney, Hong Kong, Tokyo and London. Alison was also a Visiting Fellow at Macquarie University in Sydney for 12 years until 2012. From 2007, Alison has been a professional company director and is currently Deputy Chair of Kiwibank and holds various governance positions in the finance and infrastructure sectors. Alison has a Masters of Applied Finance from Macquarie University.

TOKO KAPEA (WELLINGTON)

Toko is a Wellington-based commercial lawyer and director. He's currently director of Tuia Group Ltd and a partner in Tuia Legal. Tuia Group provides business consulting, commercial law and economic development services. He's previously worked for Chapman Tripp, BNZ, Meridian Energy, St George Bank NZ, ANZ and Powershop.

Toko has developed his governance skills through appointments to a number of Māori Trusts and incorporations including Parininihi ki Waitotara Incorporation and Ngati Apa Developments Ltd and Bathurst Resources Ltd. He also sits on a committee in Perth as part of the Banjima Direct Benefits Trust, where he oversees the distribution of land royalties to Aboriginal individuals and communities.

KEVIN MALLOY (AUCKLAND)

Kevin has extensive experience in advertising and marketing in New Zealand, New York, Hong Kong and London.

He was with the global media agency Starcom for 29 years, including the role of Global Client Director on both Coca-Cola and P&G. Kevin also held the role of Chair for Australia/New Zealand for Vivaki (the trading arm for Publicis Groupe, who own Starcom and Zenith Optimedia).

Kevin is currently on the Board of St Peters College in Auckland, the Halberg Trust and the Graham Dingle Foundation, having previously completed eight years on the Board of the New Zealand Breast Cancer Foundation.

JULIA RAUE (AUCKLAND)

Julia is an Independent Director for Z Energy Limited, Southern Cross Medical Care Society, Jade Software Corporation, and is a Member of the Risk & Audit Committee for the Treasury. Previously Julia was the Chief Information Officer of Air New Zealand (2007-2015). She was awarded the New Zealand CIO of the Year award in 2009. Passionate about growing the number of females working in technology, Julia works with a number of institutions to drive awareness of IT as a career.

BARRIE SAUNDERS (WELLINGTON)

Barrie retired from government relations consulting in March 2015 and as a director of Saunders Unsworth, the firm he co-founded in 1994. His earlier career included seven years as a journalist, some of it overseas in public radio and television. He was the NZ Meat Producers Board's North American Director based in New York and in the mid 1990s served on the board of Housing New Zealand. He was also a trustee of the Wellington City Mission and President of the Wellington Regional Chamber of Commerce.

SUSSAN TURNER (AUCKLAND)

Sussan has been in senior leadership roles for the past 30 years, including Managing Director Radio Otago, CEO RadioWorks and Group CEO of MediaWorks NZ Ltd.

She is currently CEO of the Aspire2 Group, Pro Chancellor of AUT and a trustee of the Well Foundation.

Corporate Governance

KEY GOVERNANCE STATEMENTS

Occupational health and safety

TVNZ's health and safety policy is to promote excellence in health, safety and wellness by implementing best practice health and safety systems while seeking continuous improvement.

Business continuity, insurance and risk management

TVNZ has developed business continuity plans for use in any emergency situation facing the Company.

TVNZ maintains a number of insurance policies designed to support the philosophy that, in the event of a disaster, the Company could mitigate potential loss or impact.

The Company has in place policies and procedures to identify and manage risks. Exposure to foreign exchange and interest rate risk is managed in accordance with a comprehensive Board-approved Treasury policy, which sets limits of management authority.

Editorial independence

TVNZ has in place an editorial protocol that details the duties and responsibilities of TVNZ, its Board and its executives on editorial matters. The principle of editorial independence recognises the importance of isolating control of editorial content from commercial or political influence. This principle is reflected in the Television New Zealand Act 2003.

External auditor

The Auditor-General is the Company's auditor pursuant to Section 14 of the Public Audit Act 2001. The Auditor-General has appointed Brent Penrose of Ernst & Young to act as external auditor on her behalf in the current financial year.

Legislative compliance

The Company has in place a legislative compliance programme to ensure the Company's compliance with its various statutory obligations. A bi-annual review is undertaken, the results of which are reported to the Audit and Risk Committee. During the year this occurred in August and February.

MEDIA STANDARDS

The Broadcasting Act 1989 places an obligation on the Company for the broadcasting of programmes to comply with the requirements of that Act and with codes of practice approved by the Broadcasting Standards Authority. TVNZ as a broadcaster is required to receive and consider formal complaints and to have procedures for investigating them.

In addition, the news and current affairs output of the Company's websites is subject to the jurisdiction of the Online Media Standards Authority.

TVNZ has a Complaints Committee, headed by the General Counsel, which deals with broadcasting and online complaints.

THE BOARD

Role of the Board

In addition to its duties under the Companies Act 1993, the Board, under Section 92 of the Crown Entities Act 2004, must ensure that the Company acts in a manner consistent with its objectives, functions, Statement of Intent and Statement of Performance Expectations.

The Board negotiates the Statement of Intent and Statement of Performance Expectations with its shareholding Ministers. It includes the Company's objectives, nature and scope of the activities to be undertaken and the performance targets and other measures by which its performance may be judged for the current year and following two years. The Board monitors management's performance relative to these objectives and targets.

The full Board met formally ten times during the financial year. The Board has delegated day-to-day management to the Chief Executive Officer. Policies are in place which define the individual and collective responsibilities of the Board and management. In particular, the Board has approved specific delegated authorities to enable management to incur expenditure and create binding obligations.

Appointment of Directors

Shareholding Ministers make all appointments to the Board, including that of the Chair. Appointments are for fixed terms not exceeding three years, which may be renewed.

The Board comprises individuals with a wide range of experiences and skills to ensure that all governance responsibilities are completed in a manner consistent with best possible management practice. The Board regularly conducts independently facilitated Board performance reviews.

Profiles of each of the Directors who were serving at year end are set out on page 70 and 71 of this report.

Board Committees

The Board has two standing committees:

Audit and Risk Committee

The Audit and Risk Committee met three times during the year.

The Committee assists the Board in fulfilling its responsibilities by providing recommendations, counsel and information concerning its accounting and reporting responsibilities under the Companies Act 1993 and related legislation, and evaluating risk management practices.

At year end, membership of the Committee was comprised of Alison Gerry (Chair), Kevin Malloy, Julia Raue, Dame Therese Walsh and Joan Withers.

Remuneration and HR Committee

The Remuneration and HR Committee met four times during the year.

Its work is consistent with TVNZ's obligations to be a good employer under the Crown Entities Act 2004. In addition to its role of adding value to TVNZ Human Resources plans and practices at a strategic level, the Committee approves any movement to the remuneration of the Company's senior executives and talent receiving remuneration above a specified threshold. The Committee also approves the level of any 'at risk' payments to be awarded to executives, based on the Company's business performance.

TVNZ operates a remuneration system designed to ensure that employees are rewarded for individual performance, for the responsibilities and skills required in their jobs, benchmarked against both external and internal relativities.

At year end, membership of the Committee was comprised of Dame Therese Walsh (Chair), Toko Kapea, Barrie Saunders, Sussan Turner and Joan Withers.

Project ONE Committee

In addition to the two standing committees, during the year the Board also convened a special sub-committee to oversee Project ONE, the refurbishment of TVNZ's Auckland building. This committee met 14 times during the year and was comprised of Alison Gerry (Chair), Dame Therese Walsh and Joan Withers.

New Zealand's Storyteller

TVNZ Locations

AUCKLAND
Registered office
100 Victoria Street West
Auckland 1010
PO Box 3819
Auckland 1140
Tel: 64 9 916 7000
Fax: 64 9 916 7934
tvnz.co.nz

WELLINGTON
Sales
Level 6
Prime Property Tower
86-90 Lambton Quay
Wellington 6011
PO Box 1752
Wellington 6140
Tel: 74 4 914 5198
Fax: 64 4 914 5140

News & Current Affairs
Level 5
Prime Property Tower
86-90 Lambton Quay
Wellington 6011
PO Box 1940
Tel: 64 9 914 5000
Fax: 64 4 914 5043

CHRISTCHURCH
News & Sales
31 Dundas Street
Christchurch 8011
PO Box 1945
Christchurch 8140
Tel: 64 3 961 8500
Fax: 64 3 366 9657

DUNEDIN
News
11 Dowling Street
Dunedin 9016
PO Box 1070
Dunedin 9054
Tel: 64 3 474 2880
Fax: 64 3 474 2885