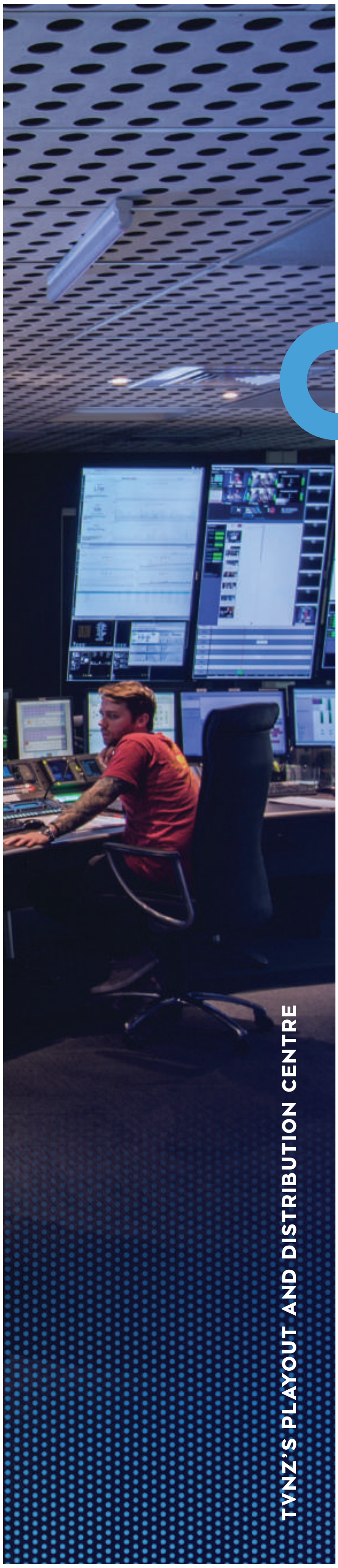
FINANCIAL YEAR 2018

# Annual Report

tvnz


Stream Monitoring
23:37:56
08:37:56
22:37:56
10:37:56
08:37:56
15:37:56
1,739
550
SUPREME SHOWDOWN




# Contents

# Performance


**EARNINGS (EBITDAF)**

$24.6m

↑ 58.6%

**NET PROFIT**

$5.1m

↑ 265%

**TOTAL REVENUE**

$318.5m

**COSTS**

$293.9m

↓ 2.4%

**AUDIENCE SHARE**

TVNZ all day audience share

43.2%

↑ 1.3 SHARE POINTS

**ONDEMAND GROWTH**

Weekly audience reach

↑ 15.2%

**DIVIDEND DECLARED**

$3.7m

IN THE STUDIO WITH 1 NEWS

# Highlights

## NEW ZEALAND'S MOST WATCHED

TVNZ reached

**2m**

New Zealanders daily

**18/20**

New Zealand's top shows screened on TVNZ

**102m**

TVNZ OnDemand streams for the year

**30m**

Re: video views for the year

# From the Chairman

**DAME THERESE WALSH**

I'm incredibly proud of the positive momentum shift in TVNZ's performance this year—particularly the massive jump in online streaming scale. At the same time we've continued to set the pace in TV and delivered improved financial results. By leveraging our strengths in telling New Zealand stories, we've shown local media players can compete and succeed.

The growth in both TV audience and revenue share is an impressive achievement. In a highly competitive market these results demonstrate TVNZ's relative performance and dedication to continuous improvement.

TVNZ earnings growth in the 2018 financial year exceeded our annual Statement of Performance Expectation target with reported EBITDAF of $24.6 million, up $9.1 million on the previous year. The year on year improvement was the result of an onerous contract provision in the prior year, stable advertising revenue and ongoing tight control of operational expenses.

Total revenue held steady at $318.5 million ($316.5 million in FY2017). TVNZ performance contributed to a correction in the New Zealand TV advertising market and complemented this with continued growth in online advertising.

TVNZ's total operational expenses decreased 2.4% to $293.9 million, down from $301.0 million in the previous year.

TVNZ posted an after tax net profit of $5.1 million for FY2018, up $3.7 million on the previous year.

The Board has declared a dividend of $3,749,000 for the 2018 financial year.

The significantly improved financial results have created both the financial headroom and business confidence to invest more aggressively in future growth initiatives.

In the coming year we'll concentrate on optimising our TV performance and accelerating our online growth. We'll also explore diversifying our business with new audiences and revenue models. We remain committed to creating a sustainable business that's able to respond to the challenges and opportunities that lie ahead.

The increased competition from global scale streaming services, and the proliferation of content to watch and more ways to watch it, has sharpened our strategic focus on local content. Original content is a sustainable point of difference in our highly competitive market. That's why TVNZ is tilting its content investment more towards compelling local content.

We're also investing in new ways of delivering local content with the successful launches of Re: and HEIHEI demonstrating new forms of content delivery that engage audiences in innovative ways.

Re: has established a big following for its edgy news offering among cord-cutting millennials. With over 30 million streams in its first year, Re: shows how TVNZ can remain relevant to younger viewers in a new media era. This year has also seen the launch of our new children's platform HEIHEI, which introduces great local content to our youngest generation of viewers. Created in partnership with NZ On Air, it represents the single biggest investment in local children's content to date. In 2019 we will look to build on the momentum we have created with these new initiatives.

Finally, I'd like to thank my fellow directors for their continued support and commitment. They join me in acknowledging the valuable contribution of Sussan Turner, who we farewelled from the Board this year. We also thank the leadership team at TVNZ and the team of committed people across the business who continue to deliver every day for our viewers and commercial partners.

T M Walsh

**Dame Therese Walsh**

# From the Chief Executive

**KEVIN KENRICK**

Big on local, big on audiences, bigger OnDemand—in the 2018 financial year we strengthened our focus on these key drivers of success and leveraged this momentum to deliver increased value for advertisers and improved financial outcomes.

We delivered on our goal of reaching two million New Zealanders every day with a hugely diverse content offering across TVNZ 1, 2, DUKE, OnDemand, 1 NEWS NOW, HEIHEI and Re:. Our ongoing ability to draw the biggest audiences drives TVNZ's business performance and delivers unrivalled audience scale and engagement opportunities for our commercial partners.

TVNZ boosted its TV performance with increased share of viewing audiences and our highest share of advertising revenue since 2010.

We also made big strides in growing our online scale. TVNZ OnDemand weekly audience reach was up 15.2% for the year and cracked a major milestone in July, surpassing 100 million streams for the year.

After five years of declining advertising revenue, it was encouraging for TVNZ to deliver stable top line performance in FY2018, and this, combined with ongoing tight control of costs, has strengthened financial performance.

## LEADING LOCAL

We're in the attention business and strive to share the moments that matter most to New Zealand viewers. TVNZ screened 18 of the top 20 programmes in the period with *1 NEWS Vote 2017 Leaders Debate* being the country's most watched programme. Big news events are always a huge drawcard for our audiences – and as New Zealand headed into September's General Election, viewers turned to 1 NEWS as the country's most trusted and most watched news. Our coverage reached over 1.5 million viewers, and for the first time included captioning and sign language viewing options for deaf and hard-of-hearing viewers.

*Te Karere* marked its 35th anniversary this year. Over the decades this daily news programme has evolved and grown, while staying true to its kaupapa to share Māori perspectives in an inclusive way. TVNZ remains fully committed to reflecting New Zealand's unique cultural identity and diversity on screen. Increasingly, our entertainment commissions, like breakout hit *The Casketeers*, integrate the use of te reo in primetime programming with broad audience appeal.

We created a shared national viewing experience around the 2018 Gold Coast Commonwealth Games with over 3 million New Zealanders watching live event coverage across TV, mobile and connected devices. Big sporting events are playing an increasing role in our line-up, with TVNZ securing sub licence rights to Rugby World Cup matches and exclusive rights to America's Cup sailing during the year.

We are constantly renewing our content line up to meet the changing needs of New Zealand viewers. TVNZ is progressively shifting its content investment from international to local programming – across news, entertainment and sport. Local is our compelling point of difference in a market that's increasingly contested by global online streaming services.

We commissioned a powerful slate of new entertainment formats during the year including reality shows *Heartbreak Island* and *Project Runway New Zealand*, factual series *Cold Case*, and comedy and drama series like *Wellington Paranormal* and *Fresh Eggs*.

Our investment in cutting-edge studio technology and immersive graphics has brought viewers closer to the stories that matter and transformed our news presentation this year.

## ONLINE MOMENTUM

Accelerating TVNZ OnDemand's growth is a key focus. This year we've launched live streaming of all our broadcast channels, extended accessibility to Chromecast, Apple TV and Vodafone TV, and introduced


new functionality to improve the viewer experience. We've made premium content available to online streaming audiences with premieres like *Deep State* and *Killing Eve* and quadrupled the depth of our online content offering. Pilot content from our New Blood initiative has come on stream, attracting new viewers and showcasing up and coming local creative talent.

In May, TVNZ and NZ On Air launched the new children's online media platform, HEIHEI. It's been developed to provide a local alternative to global kids content sites and ensure Kiwi kids get to see and hear local stories and voices that are relevant to them.

Our alternative social news voice Re: has made an exceptional start. With a singular commitment to covering the stories most important to young New Zealanders, in just one year it's achieved 30 million streams and built credibility among non-traditional TV viewers.

## POWERFUL PARTNERSHIPS

Competition in the media market has shifted from local versus local, to local versus global, and it's led us to collaborate and partner with other media players to compete more effectively.

Co-productions with international partners enable TVNZ to tell New Zealand stories on a global stage. During the FY2018 year we joined forces with ABC Australia and Netflix to bring *The New Legends of Monkey* to screen; and we made competitive reality format *Spartan* and drama *800 Words* with Seven Australia. In the works is a Scandi-New Zealand crime drama *Straight Forward* produced for us by Screentime NZ, Mastiff Denmark and Viaplay.

This year we also joined together with MediaWorks and SKY TV to launch ThinkTV and promote the value of TV to advertisers and agencies. ThinkTV will help advertisers get the very best out of today's multiplatform TV environment.

Our most critical partnership is the relationship we have with our country. The Government owns TVNZ on behalf of all New Zealanders and we want Kiwis to feel proud of this ownership. In the last year we were ranked number two in the Colmar Brunton Corporate Reputation Index based primarily on the level of public trust New Zealanders place in us. We are committed to promoting a strong mix of diverse voices on screen and an inclusive work environment for our people.

## FUTURE FOCUS

The last few years have been challenging for TVNZ and our performance highlights in FY2018 have generated positive momentum within the business and emboldened our ambition for the future. Our team of talented and committed people are proud to have delivered some memorable moments for our viewers, and positive outcomes for our advertisers this year.

We expect competition in the media market to intensify, and the pace and magnitude of change to accelerate. Our focus for FY2019 is to optimise our TV performance, super charge our online streaming growth, and actively explore opportunities to diversify audiences and sources of revenue.

**Kevin Kenrick**

# Financial Performance Measures

Each year TVNZ sets out financial targets and specific performance measures in its Statement of Performance Expectations. The financial measures table reports TVNZ performance against these metrics.

## FINANCIAL MEASURES

| Measurement | FY2018 Actual | FY2018 Target | FY2017 Actual |
|---|---|---|---|
| EBITDAF | $24.6m | $14.7m | $15.5m |
| NPAT | $5.1m | $2.2m | $1.4m |
| Return on average equity (%) | 2.2% | 1.0% | 0.6% |
| Dividend Yield | 5.4% | 3.0% | 6.9% |
| Dividend Payout (% of free cash flow) | 70% | 70% | 80% |
| ROE adjusted for IFRS fair value movements | 2.1% | 1.0% | -0.2% |
| Return on Capital Employed | 1.6% | 1.3% | -0.6% |
| Total Shareholder Return[1] (TSR) | 13.1% | 3.0% | -24.6% |
| Gearing Ratio | 0.0% | 0.0% | 0.0% |
| Interest Cover (times) | 234 | 216 | 176 |
| Solvency (current assets/current liabilities) | 1.96 | 2.23 | 2.08 |
| Return on Programme Investment (operating margin) | 39.8% | 39.1% | 37.4% |

Note 1 – The negative TSR in FY2017 was due to the reduction in the Board's estimate of commercial valuation of the business.

# 2018: Our Year

Our big local event formats included *Heartbreak Island, My Kitchen Rules New Zealand* and *Survivor New Zealand*. Major entertainment commissions included *Wellington Paranormal, Project Runway New Zealand, The Great Kiwi Bake Off, Fresh Eggs, Straight Forward* and *The Bad Seed*





Re:

Augmented graphics and a 17-metre-long, 2.5-metre-high curved video wall modernised 1 NEWS' presentation

*Coronation Street* episodes jumped forward 18 months in primetime to be in sync with UK transmission

**1.3 MILLION** New Zealanders watched TVNZ's Royal Wedding coverage

Re: surpassed **30 MILLION** video views in its first year

TVNZ's 2018 Gold Coast Commonwealth Games coverage reached over **3 MILLION** New Zealanders

*1 NEWS Vote 17 Leaders Debate* reached **1.1 MILLION** viewers. There were an additional **144,000** streams across TVNZ's online channels


Joined with Mediaworks and Sky TV to launch ThinkTV

TVNZ secured sports rights for selected Rugby World Cup matches and exclusive rights to the next America's Cup

**Sunday Theatre** drew in over **1.5 MILLION** New Zealanders across its 2017 season. *Resolve* reached **826,800** TV viewers and was streamed more than **100,000** times

HEIHEI, the single biggest investment in local children's content to date, launched in partnership with NZ On Air

We extended our committment to elite Paralympic sport through to 2020 with our partners Attitude Pictures

TVNZ OnDemand launched on Chromecast, Apple TV and Vodafone TV, and all TVNZ channels can now be streamed

**14** awards across **25** categories for TVNZ local content at the New Zealand TV Awards

**4** awards for video journalism at the Voyager Media Awards

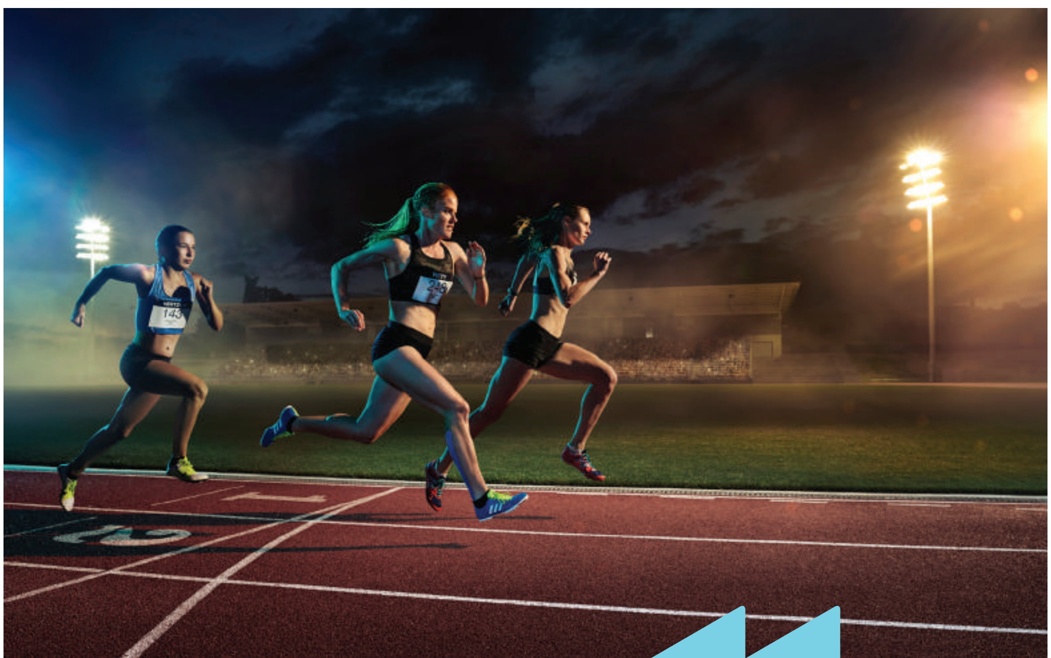
**#2** in NZ for Corporate Reputation (Colmar Brunton NZ Corporate Reputation Index)

**#4** in NZ for most attractive place to work (Randstad)

1 NEWS

# The Moments that Mattered

1 NEWS VOTE 2017



COMMONWEALTH GAMES

The General Election, the Royal Wedding, the 2018 Gold Coast Commonwealth Games—the year's big events dominated New Zealand's TV top 20, and TVNZ drew the biggest audiences.

# New Zealand's Top 20 TV shows

| | | |
|---|---|---|
| 1 | 792,900 | 1 NEWS Vote 2017 Leaders Debate |
| 2 | 659,000 | 1 NEWS |
| 3 | 645,400 | 1 NEWS Vote 2017 Final Leaders Debate |
| 4 | 618,800 | Hyundai Country Calendar |
| 5 | 601,200 | Commonwealth Games 2018 Rugby Sevens Men's Gold Match |
| 6 | 575,200 | Royal Wedding Prince Harry & Meghan |
| 7 | 530,200 | Stayin' Alive: A Grammy Salute to the BeeGees |
| 8 | 521,400 | Commonwealth Games 2018 Rugby Sevens Women's Gold Match |
| 9 | 515,400 | Blue Planet II |
| 10 | 514,300 | Newshub Decision 17 Leaders Debate |
| 11 | 489,500 | Diana: Our Mother Her Life & Legacy |
| 12 | 488,300 | Fair Go |
| 13 | 487,100 | The Royal Variety Performance |
| 14 | 483,700 | 1 NEWS Vote 2017 Multi Party Debate |
| 15 | 473,000 | 1 NEWS Vote 2017 Election Night Special |
| 16 | 466,500 | Coast New Zealand |
| 17 | 445,000 | Meghan Markle: The First 100 Days |
| 18 | 441,300 | Highway Cops |
| 19 | 432,600 | Seven Sharp |
| 20 | 430,300 | Sunday |

TVNZ

Mediaworks

Source: Nielsen TAM Consolidated, All People 5+ average audience, 1/07/2017 - 30/06/2018. All channels ranked on average audience. *Sunday* includes *Sunday* specials. *Seven Sharp* includes *Seven Sharp* special. Data includes parent channels and plus 1

Average audience captures the average audience who watched every minute of a programme

All People 5+: numbers capture the total audience watching

# The Moments that Mattered

GLORIAVALE: THE RETURN

SHORTLAND STREET

LOVE ISLAND UK

HOME & AWAY

# New Zealand's Favourite TVNZ OnDemand Shows

1

**Shortland Street**

VIDEO REACH: 279,756
STREAMS: 13,105,232

2

**Love Island UK**

VIDEO REACH: 147,034
STREAMS: 4,890,094

3

**Home & Away**

VIDEO REACH: 136,189
STREAMS: 5,702,145

4

**Young Sheldon**

VIDEO REACH: 133,853
STREAMS: 1,532,517

5

**Love Island Australia**

VIDEO REACH: 107,596
STREAMS: 2,492,746

6

**The Big Bang Theory**

VIDEO REACH: 106,532
STREAMS: 3,145,355

7

**Masterchef Australia**

VIDEO REACH: 100,070
STREAMS: 1,103,767

8

**Coronation Street**

VIDEO REACH: 96,186
STREAMS: 3,929,543

9

**Gloriavale: The Return**

VIDEO REACH: 92,454
STREAMS: 382,043

10

**Wentworth**

VIDEO REACH: 91,220
STREAMS: 805,443

*Shortland Street* draws the biggest crowds to TVNZ OnDemand, with a reach of 280,000 online viewers in FY2018.

Source: All People 13+ Adobe Analytics / Google Analytics, 1/07/2017 - 30/06/2018.
Ranked on Video Reach. Video reach captures every viewer who streamed the programme

# Our People

**642**

**FULL TIME EQUIVALENT EMPLOYEES**

FY2017 Full time Equivalents: 634

## WOMEN REPRESENT:

**46%** of our workforce ↑ 3%

**47%** of our business leaders ↑ 8%

**33%** of our executive team ↓ 4%

**43%** of our board ↓ 7%

## REMUNERATION PROFILES

| <$50k | $50-$100k | $100-$150k | >$150k |
|---|---|---|---|
| 14% | 56% | 20% | 10% |

Additional information on remuneration is disclosed on page 65.

**29**

**DIFFERENT LANGUAGES SPOKEN**

The most common second languages are Te Reo, French, Cantonese, German, Mandarin & Spanish

**11%**

of TVNZ people identify with **MORE THAN ONE ETHNIC GROUP**

TVNZ people identify with at least **31 DIFFERENT ETHNICITIES** and the most common are:

**NZ European/Pākehā** 69%
**& NZ Māori** 9%

Other ethnicities in the top 10 list include:

**Chinese, Indian, British/English, European, Filipino, Cook Island Māori, Samoan & Tongan**

**7%**

of our people identify as part of the **RAINBOW COMMUNITY**

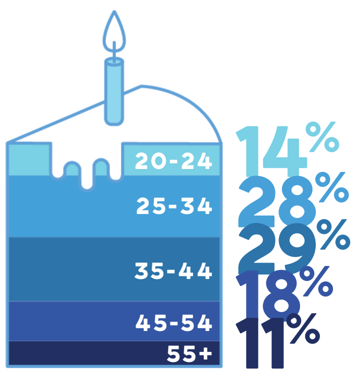
**AGE**

Our people range in age from

**21-73**

The average age is

**39**




**TENURE**

**7.7 years**
average tenure

**24%**
of our people have been with TVNZ for over 10 years

**Over 25%**
of our people use flexible working arrangements

**86%**
of our people are proud to work at TVNZ

**83%**
of our people say their manager cares about their wellbeing

**96%**
of our people support diversity and inclusion within TVNZ

**84%**
of our people believe that TVNZ does a good job of keeping its employees safe

**87%**
of our people believe TVNZ people treat each other with respect regardless of age, gender, disability, ethnicity, sexual orientation or other differences

# Our People

TVNZ's people and talent strategy champions our open and live way of working. We're evolving and growing our capability to maintain TVNZ's leadership in an industry facing unprecedented levels of change.

We're focused on keeping pace with the rapidly changing needs of viewers and advertisers. Our role is to support our people so they can deliver on our commitment to share the moments that matter with New Zealanders.

This year we launched a new annual inclusion and diversity survey, expanded our leadership programme to encompass a wider group of our people leaders, continued our New Blood viewer-led content initiatives to attract younger audiences, and launched a Creators' Space to support emerging industry talent with studio production facilities.

Through our people and our content, TVNZ is committed to representing New Zealand's unique cultural identity and diversity on screen. Reflecting Māori perspectives is reported on page 22.

## Good Employer

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

### LEADERSHIP, ACCOUNTABILITY & CULTURE

- Leadership programme for our business leaders
- Induction programmes for new people leaders
- Ongoing implementation of employee-led initiatives to enhance employee engagement
- Ongoing use of a culture survey tool to gain organisational insights
- Introduced a new annual inclusion and diversity survey to better understand the make-up of our people and enable the development of an inclusion and diversity strategy. The survey includes demographic questions and canvasses perceptions of TVNZ's work culture in terms of inclusion, diversity and flexible working

### RECRUITMENT, SELECTION & INDUCTION

- Induction sessions with the CEO and executive team for all new employees
- Recruitment training for new people leaders which includes awareness of selection biases and the importance of inclusion and diversity in recruitment and promotion

### EMPLOYEE DEVELOPMENT & PROMOTION

- Coaching for our people leaders on key leadership capabilities
- Functional training and development courses available for our people
- Regular opportunities to hear from a wide range of external speakers to provide fresh perspectives and exposure to diverse ideas
- Launch of workplace te reo classes through a new initiative with Massey University

### FLEXIBILITY & WORK DESIGN

- Flexible work arrangements include part-time, job share, working from home, remote access and casual employment
- Surveyed employee attitudes and adoption of flexible working practices as part of our new inclusion and diversity survey. We will develop and implement new flexible working guidelines in FY2019

### REMUNERATION, RECOGNITION & CONDITIONS

- Fully transparent job banding and evaluation processes
- Remuneration is externally benchmarked against the market each year and takes into account ability to pay and internal and external relativities
- Annual review of internal remuneration relativities between genders

- We encourage employee participation and involvement in all company change processes
- We enable formal and informal individual and team recognition

### HARASSMENT & BULLYING PREVENTION

Our policies and practices currently include:

- Employment Code of Conduct provided to all employees prior to starting with TVNZ
- Equal Employment Opportunity policy
- Harassment policy – our existing policy was strengthened in FY2018
- Social media policy
- Support framework developed for reality show contestants focused on their wellbeing and resilience
- In FY2019, we will update our Code of Conduct to encompass a holistic view of the way we work at TVNZ and what we stand for

### SAFE & HEALTHY ENVIRONMENT

- Employee wellbeing programme including mental health and wellbeing seminars, mindfulness, yoga, eye tests and flu vaccinations
- Provide Employee Assistance Programme and discounted health insurance
- Ergonomic workstation assessments and sit/stand desks
- Comprehensive wellbeing and safety induction training for all employees and contractors
- Strong engagement with unions and employees regarding participation in wellbeing and safety
- We will launch a new employee wellbeing app and wellness allowance in FY2019

Additional information on remuneration is disclosed on page 65.

# Reflecting Māori

BABY MAMA'S CLUB

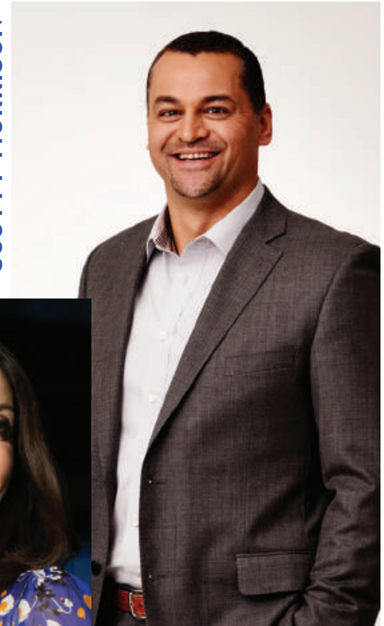
ANIKA MOA: UNLEASHED

TV reach: Nielsen TAM Consolidated, All People 5+ Reach, FY2017: 01/07/2016 – 30/6/2017, FY2018: 1/7/2017 – 30/6/2018. Reach counts everyone who watched the programme for at least one minute – it's the measure that captures the full scale of the audience

TVNZ OnDemand streams: Google Analytics 13+

THE CASKETEERS

MIRIAMA KAMO



SCOTTY MORRISON

# Perspectives

## Te Reo Tātaki TVNZ is committed to reflecting New Zealand's unique cultural identity on screen.

TVNZ delivers New Zealand's most watched Māori programming. 756,000 viewers turned in each week to at least one of our dedicated Māori content programmes during FY2018 (up from 548,000 in FY2017).

News and current affairs mainstays *Te Karere* and *Marae*, and documentary series *Waka Huia*, anchor our Māori programming line-up. Increasingly, TVNZ's new commissions integrate the use of te reo in primetime, with series like *Kasey and Karena's Kitchen Diplomacy*, *The Casketeers* and *Wild Kai Legends* opening a window into the Māori world for all New Zealanders.

Māori content is part of our online growth story – new series *Baby Mama's Club* was streamed 365,000 times on TVNZ OnDemand in FY2018. Collaborating to better serve our audiences, we partnered with Māori Television to bring *Anika Moa Unleashed* to TVNZ OnDemand and *Tākaro Tribe* to HEIHEI and OnDemand this year.

Funding from Te Māngai Pāho and NZ On Air supports the wide range of Māori content made and commissioned by TVNZ across our platforms.

Our people play a vital role in building our connection to Māori culture and ensuring Māori perspectives and voices are considered and presented on screen. We also work with our production partners to ensure our local entertainment commissions reflect Aotearoa's diversity – from actors cast in dramas like *Shortland Street*, to contestants in local reality series like *Survivor New Zealand* and *My Kitchen Rules New Zealand*.

We embrace the everyday use of te reo Māori in TVNZ's broader local content offering. In partnership with Te Māngai Pāho, we launched a major campaign around Te Wiki o Te Reo Māori in 2017. TVNZ produced a series of videos with our presenters pronouncing common phrases and encouraging New Zealanders to give te reo a go.

TVNZ continues to maintain Te Rau Aroha in our building – it's both a wharehui and a central meeting space for all teams in TVNZ. We also offer our employees weekly te reo classes through a new initiative with Massey University.

# Screen Standards

TVNZ broadcasts 20,000 hours of content each year, some of it sparking lively discussion and debate. We think it's great our viewers share their views about what they see. Through the formal complaints process, our viewers play an influential part in the maintenance of screen standards.

The Broadcasting Standards Authority (BSA) is responsible under the Broadcasting Act 1989 for programme standards. Online news and entertainment content falls under the jurisdiction of the Media Council (formerly known as the Press Council).

## Complaints

### 2017

**BSA**

- 956 complaints
- 36 upheld

**MEDIA COUNCIL**

- 6 complaints
- None upheld

### 2018

**BSA**

- 1249 complaints
- 44 upheld

**MEDIA COUNCIL**

- 12 complaints
- None upheld

## Referrals

In FY2018 the BSA handled 37 referrals about TVNZ programming (referrals are counted per BSA decision). Of these 3 have been upheld by the BSA*.

### 2017

**BSA**

- 37 referred
- 5 upheld

**MEDIA COUNCIL**

- 1 referred - not upheld

### 2018

**BSA**

- 37 referred
- 3 upheld*

**MEDIA COUNCIL**

- None referred

* At time of writing, some referrals are yet to be determined by the BSA

ON SET: SHORTLAND STREET

# Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2018

# Contents



ON LOCATION: HEARTBREAK ISLAND

# Statement of Responsibility

**FOR THE YEAR ENDED 30 JUNE 2018**

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 2018 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 2018.

For and on behalf of the Board,

**Dame Therese Walsh, DNZM**
Chairman

**Abigail Foote**
Chair, Audit and Risk Committee

24 August 2018

# Consolidated Income Statement

## FOR THE YEAR ENDED 30 JUNE 2018

| | Notes | 2018<br>$000 | 2017<br>$000 |
|---|---|---|---|
| **Operating revenue** | 4 | 318,509 | 316,523 |
| **Expenses** | | | |
| Programming | 5 | (185,851) | (191,650) |
| Employee benefits | 6 | (46,140) | (48,022) |
| Transmission, technology and telecommunications | | (20,268) | (18,830) |
| Premises and occupancy | | (3,583) | (4,590) |
| Marketing | | (12,822) | (9,624) |
| Other | | (25,243) | (28,299) |
| | | (293,907) | (301,015) |
| **Earnings before interest, tax, depreciation and amortisation, financial instruments and joint venture (EBITDAF)** | | 24,602 | 15,508 |
| Depreciation and amortisation | 6 | (19,510) | (16,353) |
| Interest income | | 917 | 765 |
| Interest expense | | (105) | (99) |
| Financial instruments/foreign currency gains | 7 | 1,309 | 2,109 |
| Share of results of joint venture | 14 | (43) | 16 |
| **Profit before income tax** | | 7,170 | 1,946 |
| Income tax expense | 8 | (2,089) | (554) |
| **Profit for the year** | | 5,081 | 1,392 |

The accompanying notes form part of these financial statements.

# Consolidated Statement of Comprehensive Income

## FOR THE YEAR ENDED 30 JUNE 2018

| | Notes | 2018<br>$000 | 2017<br>$000 |
|---|---|---|---|
| **Profit for the year** | | 5,081 | 1,392 |
| **Other comprehensive income reclassifiable to profit or loss in subsequent periods** | | | |
| Revaluation land and buildings | 11 | 20,900 | 30,000 |
| Income tax effect | | (1,036) | 0 |
| **Revaluation of land and buildings, net of tax** | | 19,864 | 30,000 |
| **Total comprehensive income for the year** | | 24,945 | 31,392 |

The accompanying notes form part of these financial statements.

# Consolidated Statement of Changes in Equity

**FOR THE YEAR ENDED 30 JUNE 2018**

| | Share capital $000 | Revaluation reserve $000 | Retained earnings $000 | Total $000 |
|---|---|---|---|---|
| **At 1 July 2017** | 140,000 | 30,000 | 56,714 | 226,714 |
| Profit for the year | 0 | 0 | 5,081 | 5,081 |
| Other comprehensive income net of income tax | 0 | 19,864 | 0 | 19,864 |
| Total comprehensive income for the year | 0 | 19,864 | 5,081 | 24,945 |
| **Equity transactions** | | | | |
| Dividend paid in the year | 0 | 0 | (9,016) | (9,016) |
| **At 30 June 2018** | 140,000 | 49,864 | 52,779 | 242,643 |

| | Share capital $000 | Revaluation reserve $000 | Retained earnings $000 | Total $000 |
|---|---|---|---|---|
| **At 1 July 2016** | 140,000 | 0 | 68,692 | 208,692 |
| Profit for the year | 0 | 0 | 1,392 | 1,392 |
| Other comprehensive income net of income tax | 0 | 30,000 | 0 | 30,000 |
| Total comprehensive income for the year | 0 | 30,000 | 1,392 | 31,392 |
| **Equity transactions** | | | | |
| Dividend paid in the year | 0 | 0 | (13,370) | (13,370) |
| **At 30 June 2017** | 140,000 | 30,000 | 56,714 | 226,714 |

The accompanying notes form part of these financial statements.

# Consolidated Statement of Financial Position

## AS AT 30 JUNE 2018

| | Notes | 2018 $000 | 2017 $000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 9 | 39,268 | 42,971 |
| Trade and other receivables | 10 | 46,168 | 49,435 |
| Programme rights | 12 | 54,842 | 37,997 |
| Derivatives | 19 | 840 | 166 |
| **Total current assets** | | 141,118 | 130,569 |
| **Non-current assets** | | | |
| Property, plant and equipment | 11 | 152,904 | 141,477 |
| Other intangibles | 12 | 18,470 | 18,796 |
| Deferred tax | 8 | 3,355 | 4,339 |
| Derivatives | 19 | 279 | 186 |
| Investment in joint venture | 14 | 85 | 128 |
| **Total non-current assets** | | 175,093 | 165,106 |
| **Total assets** | | 316,211 | 295,675 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Bank overdraft | 15 | 0 | 45 |
| Trade and other payables | 16 | 64,097 | 51,094 |
| Employee entitlements | 16 | 3,794 | 4,580 |
| Deferred income | 17 | 3,493 | 2,938 |
| Derivatives | 19 | 111 | 989 |
| Provisions | 18 | 373 | 2,997 |
| **Total current liabilities** | | 71,868 | 62,643 |
| **Non-current liabilities** | | | |
| Employee entitlements | 16 | 941 | 1,202 |
| Provisions | 18 | 759 | 5,116 |
| **Total non-current liabilities** | | 1,700 | 6,318 |
| **Equity** | | | |
| Share capital | 21 | 140,000 | 140,000 |
| Revaluation reserve | 21 | 49,864 | 30,000 |
| Retained earnings | | 52,779 | 56,714 |
| **Total equity** | | 242,643 | 226,714 |
| **Total equity and liabilities** | | 316,211 | 295,675 |

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 24 August 2018.

**Dame Therese Walsh, DNZM**
Chairman

**Abigail Foote**
Chair, Audit and Risk Committee

# Consolidated Statement of Cash Flows

**FOR THE YEAR ENDED 30 JUNE 2018**

| | Notes | 2018<br>$000 | 2017<br>$000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers | | 316,539 | 308,876 |
| Receipt of programme funding | | 5,299 | 5,153 |
| Interest received | | 914 | 833 |
| Payments to suppliers and employees | | (305,822) | (281,690) |
| Interest paid | | (105) | (99) |
| Income tax paid | 8 | (1,611) | (2,563) |
| **Net cash flows from operating activities** | 22 | 15,214 | 30,510 |
| **Cash flows used in investing activities** | | | |
| Proceeds from sale of property, plant and equipment | | 0 | 10 |
| Purchase of property, plant and equipment | | (4,483) | (12,836) |
| Purchase of intangibles | | (5,376) | (6,144) |
| Investment in joint venture | | 0 | 0 |
| **Net cash flows used in investing activities** | | (9,859) | (18,970) |
| **Cash flows used in financing activities** | | | |
| Dividends paid | | (9,016) | (13,370) |
| **Net cash flows used in financing activities** | | (9,016) | (13,370) |
| Net decrease in cash and cash equivalents | | (3,661) | (1,830) |
| Net foreign exchange differences | | 3 | 35 |
| Cash and cash equivalents at the beginning of the year | | 42,926 | 44,721 |
| **Cash and cash equivalents at the end of the year** | 9 | 39,268 | 42,926 |

The accompanying notes form part of these financial statements.

# Notes to the Consolidated Financial Statements

**FOR THE YEAR ENDED 30 JUNE 2018**

## 1. CORPORATE INFORMATION

Television New Zealand Limited and its subsidiaries (together, "TVNZ") 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 TVNZ in any way.

These consolidated financial statements were approved for issue by the Board of Directors on 24 August 2018.

## 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.

**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, Crown Entities Act 2004 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, assets and liabilities that are designated in a fair value hedge relationship and land and buildings measured at fair value.

The consolidated financial statements are presented in New Zealand dollars ($), which is TVNZ'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 TVNZ'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 TVNZ 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 TVNZ. 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 TVNZ companies are eliminated on consolidation.

Subsidiaries are fully consolidated from the date on which control is obtained by TVNZ and cease to be consolidated from the date on which control is transferred out of TVNZ. 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 TVNZ for the annual reporting period ending 30 June 2018. These are noted below.

# Notes to the Consolidated Financial Statements *(continued)*

**FOR THE YEAR ENDED 30 JUNE 2018**

*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. An assessment of the impact of NZ IFRS 9 determined that there are no material impacts when compared with the existing accounting treatment. The application date for this standard is for accounting periods beginning on or after 1 January 2018, the application date for TVNZ 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

An assessment of the impact of NZ IFRS 15 on all of TVNZ's material revenue streams has been completed. No material impacts were identified compared with the existing accounting treatment. The application date for this standard is for accounting periods beginning on or after 1 January 2018, the application date for TVNZ is 1 July 2018. IFRS 15 will be adopted on a fully retrospective basis.

*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. TVNZ has commenced a detailed assessment of the impact of this standard.

The adoption may have a material impact on the presentation of TVNZ's assets and liabilities, mainly due to property leases. TVNZ has not substantially completed the assessment of lease contracts under the new accounting standard, therefore, a quantification of the impact on TVNZ's results cannot currently be estimated.

The application date for this standard is for accounting periods beginning on or after 1 January 2019, the application date for TVNZ 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.

Estimates and underlying assumptions are reviewed on an ongoing basis, with revisions recognised in the period in which the estimates are revised and in any future periods affected.

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

Note 5 - Onerous contract
Note 8 - Income taxes and deferred taxes
Note 11 – Fair value of land and buildings
Note 11 and 12 - Estimation of useful lives of property, plant and equipment and finite-lived intangible assets
Note 12 - Capitalised development costs

# Notes to the Consolidated Financial Statements *(continued)*

**FOR THE YEAR ENDED 30 JUNE 2018**

## 4) OPERATING REVENUE AND PROGRAMME FUNDING

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

Advertising revenue is recognised as income at the time of transmission. Advertising revenue includes revenue from advertising, sponsorship and programme production funding on TVNZ 1, TVNZ 2, TVNZ DUKE, TVNZ OnDemand and tvnz.co.nz.

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

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, and multi feed service.

| | 2018 | 2017 |
|---|---|---|
| | $000 | $000 |
| Advertising revenue | 301,001 | 299,145 |
| Programme funding | 5,524 | 4,864 |
| Other trading revenue | 11,984 | 12,514 |
| | 318,509 | 316,523 |

## 5) PROGRAMMING

| | | |
|---|---|---|
| Programme utilisation (Note 12) | 180,808 | 179,250 |
| Programme rights impairment | 9,400 | 8,043 |
| Onerous contract | (4,357) | 4,357 |
| | 185,851 | 191,650 |

Impairment on programme rights and a provision for expected future losses on the loss making International contract was made in the previous year. The total onerous contract and programme rights impairment expense recognised was $12.4m at 30 June 2017. There was $8.0m of international programme rights at 30 June 2017 that were impaired, leaving an onerous provision of $4.4m at 30 June 2017.

At 30 June 2018 the total onerous programme rights impairment has reduced to $9.4m. Due to the timing of purchases of international programme rights there were $9.4m of international programme rights at 30 June 2018 that were impaired. This has resulted in the onerous provision being reduced to nil at 30 June 2018. Management has assessed whether any further onerous provision is required and have determined that no further provision is required. The total onerous contract provision was calculated as the net of estimated revenue and the estimate of programme purchase commitments discounted to present values.

# Notes to the Consolidated Financial Statements *(continued)*

**FOR THE YEAR ENDED 30 JUNE 2018**

### 6) EXPENSES

Additional information in respect of expenses included within the Statement of Financial Performance is as follows:

| | 2018 | 2017 |
|---|---|---|
| | $000 | $000 |
| **Employee benefits expense** | | |
| Wages and salaries and other short term benefits | 69,244 | 71,114 |
| Superannuation contribution expense | 2,522 | 2,715 |
| Less employee benefits charged to programmes/capitalised | (25,626) | (25,807) |
| | 46,140 | 48,022 |
| **Depreciation and amortisation** | | |
| Depreciation | 14,492 | 10,754 |
| Amortisation - software | 4,885 | 5,466 |
| Amortisation - licences | 133 | 133 |
| | 19,510 | 16,353 |
| **Auditor's remuneration** | | |
| Audit of financial statements | 286 | 278 |
| Other assurance engagements | 16 | 12 |
| Other non audit services | 76 | 4 |
| | 378 | 294 |

Other non audit services consist of remuneration benchmarking services.

**Reorganisation costs**

| | | |
|---|---|---|
| Reorganisation costs | 1,130 | 4,239 |

Costs associated with the reorganisation of parts of TVNZ 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 TVNZ's strategy and technology changes.

**Rental and operating lease costs**

| | | |
|---|---|---|
| Rental and operating lease costs | 929 | 1,595 |

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. The prior year expense includes the temporary lease of accommodation during the refurbishment of the Television Centre at 100 Victoria Street West.

# Notes to the Consolidated Financial Statements *(continued)*

FOR THE YEAR ENDED 30 JUNE 2018

## 7) FINANCIAL INSTRUMENTS & FOREIGN CURRENCY (LOSSES) / GAIN

**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.

| | 2018<br>$000 | 2017<br>$000 |
|---|---|---|
| Foreign currency realised gains/(losses) | 52 | (1,870) |
| Fair value changes of derivative financial instruments | 1,646 | 2,621 |
| Foreign currency unrealised losses | (337) | (512) |
| | 1,309 | 2,109 |

## 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 relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in Other Comprehensive Income or directly in equity.

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.

# Notes to the Consolidated Financial Statements *(continued)*

**FOR THE YEAR ENDED 30 JUNE 2018**

## 8) INCOME TAX *(continued)*

**Judgements and estimates**
TVNZ'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.

| | 2018<br>$000 | 2017<br>$000 |
|---|---|---|
| **a) Income Tax** | | |
| The major components of income tax expense are: | | |
| **Income statement** | | |
| *Current income tax* | | |
| Current period | 2,141 | 4,632 |
| Adjustments for prior year | 0 | (55) |
| | 2,141 | 4,577 |
| *Deferred income tax* | | |
| Origination and reversal of temporary differences | (52) | (4,023) |
| Total income tax expense | 2,089 | 554 |
| **b) Reconciliation of income tax expense** | | |
| Profit before income tax for the year | 7,170 | 1,946 |
| Taxation at 28% | 2,008 | 545 |
| Adjusted for the tax effect of: | | |
| Non deductible expenditure | 69 | 68 |
| Share of results and impairment of joint venture | 12 | (4) |
| Income tax (over)/under provided in prior years | 0 | (55) |
| Total tax expense | 2,089 | 554 |

# Notes to the Consolidated Financial Statements *(continued)*

**FOR THE YEAR ENDED 30 JUNE 2018**

## 8) INCOME TAX *(continued)*

**c) Recognised deferred tax assets/(liabilities)**

| | 2018 | |
|---|---|---|
| | Current income tax $000 | Deferred income tax $000 |
| Opening balance | (1,190) | 4,339 |
| Charged to income statement - tax expense | (2,141) | 52 |
| Charged to revaluation reserve | 0 | (1,036) |
| Other payments/(receipts) | 1,611 | 0 |
| Closing balance | (1,720) | 3,355 |
| Tax expense in income statement | | (2,089) |
| Amounts recognised in the balance sheet: | | |
| Deferred tax asset | | 3,355 |

| | 2017 | |
|---|---|---|
| | Current income tax $000 | Deferred income tax $000 |
| Opening balance | 824 | 316 |
| Charged to income statement - tax expense | (4,577) | 4,023 |
| Other payments | 2,563 | 0 |
| Closing balance | (1,190) | 4,339 |
| Tax expense in income statement | | (554) |
| Amounts recognised in the balance sheet: | | |
| Deferred tax asset | | 4,339 |

| | Balance Sheet | |
|---|---|---|
| | **2018** $000 | **2017** $000 |
| Deferred income tax at 30 June relates to the following: | | |
| *Deferred tax assets/(liabilities)* | | |
| Programme rights | 11,183 | 7,797 |
| Employee entitlements | 2,047 | 2,299 |
| Property, plant and equipment and software | (10,244) | (7,560) |
| Provisions | 300 | 1,733 |
| Other | 69 | 70 |
| | 3,355 | 4,339 |

# Notes to the Consolidated Financial Statements *(continued)*

## FOR THE YEAR ENDED 30 JUNE 2018

### 8) INCOME TAX *(continued)*

| | 2018<br>$000 | 2017<br>$000 |
|---|---|---|
| **d) Imputation credit account** | | |
| The amount of imputation credits available for use in subsequent reporting periods | 30,256 | 31,626 |

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

### 9) CASH & CASH EQUIVALENTS

**Accounting policy**
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.

| | 2018<br>$000 | 2017<br>$000 |
|---|---|---|
| Cash at bank and in hand | 19,268 | 27,971 |
| Short term deposits | 20,000 | 15,000 |
| Cash and cash equivalents in the statement of financial position | 39,268 | 42,971 |
| Bank overdrafts used for cash management purposes | 0 | (45) |
| Cash and cash equivalents in the statement of cash flows | 39,268 | 42,926 |

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

# Notes to the Consolidated Financial Statements *(continued)*

**FOR THE YEAR ENDED 30 JUNE 2018**

### 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 TVNZ 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.

| | 2018 | 2017 |
|---|---|---|
| | $000 | $000 |
| Trade receivables | 32,904 | 35,682 |
| Less provision for receivables impairment | (6) | (21) |
| Prepaid programme rights | 10,108 | 10,910 |
| Prepayments - other | 3,162 | 2,864 |
| | 46,168 | 49,435 |

**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 | | |
| At 1 July | 21 | 170 |
| Charge/(reversal) for the year | (15) | (133) |
| Amounts written off | 0 | (16) |
| **At 30 June** | 6 | 21 |

Trade receivables that are less than 90 days overdue are not considered impaired. As at 30 June 2018 trade receivables of $324,000 (2017: $878,000) were past due but not considered impaired. Direct contact has been made with these debtors and TVNZ believes that payment will be made in full. At 30 June, the ageing analysis of trade receivables is as follows:

| | | |
|---|---|---|
| Current | 32,574 | 34,783 |
| Up to 30 days overdue | 299 | 671 |
| Between 30 and 90 days past due not impaired | 25 | 203 |
| Over 90 days overdue - past due not impaired | 0 | 4 |
| Over 90 days overdue - past due considered impaired | 6 | 21 |
| | 32,904 | 35,682 |

**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 (except for land and buildings) 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.

Land and buildings are measured at fair value less accumulated depreciation for buildings and impairments losses recognised at the date of revaluation. Valuations are performed with sufficient frequency to ensure that the carrying amount of a revalued asset does not differ materially from its fair value.

A revaluation surplus is recorded in other comprehensive income (OCI) and credited to the revaluation reserve in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in the income statement, the increase is recognised in the income statement. A revaluation deficit is recognised in the consolidated income statement, except to the extent that it offsets an existing surplus on the same asset recognised in the assets revaluation reserve.

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 land and buildings fair values are based on market valuations prepared by CBRE, an independent valuer who has valuation experience for similar land and buildings in New Zealand. The valuations completed by the valuer for land are based on Floor Area Ratio (FAR) method and buildings are based on the discounted cash flow method. The significant input for the FAR method is the rate per square metre and the discounted cash flow inputs are the discount rate, terminal yield, the growth rate and market rental. A net gain from the revaluation of land and buildings of $20,900,000 was recognised in Other Comprehensive Income during the year.

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 2018**

### 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 2018** | | | | | |
| At 1 July 2017 net of accumulated depreciation and impairment | 117,139 | 21,544 | 86 | 2,708 | 141,477 |
| Revaluation | 20,900 | 0 | 0 | 0 | 20,900 |
| Additions | 136 | 3,452 | 626 | 269 | 4,483 |
| Transfers from WIP | 418 | 1,321 | 432 | (2,171) | 0 |
| Reclassification from Software WIP | 0 | 537 | 0 | 0 | 537 |
| Disposals | 0 | (1) | 0 | 0 | (1) |
| Depreciation charge | (7,528) | (6,820) | (144) | 0 | (14,492) |
| **Closing net book amount** | 131,065 | 20,033 | 1,000 | 806 | 152,904 |
| **At 30 June 2018** | | | | | |
| Cost and valuation | 187,495 | 141,551 | 1,474 | 806 | 331,326 |
| Accumulated depreciation and impairment | (56,430) | (121,518) | (474) | 0 | (178,422) |
| | 131,065 | 20,033 | 1,000 | 806 | 152,904 |
| **Year ended 30 June 2017** | | | | | |
| At 1 July 2016 net of accumulated depreciation and impairment | 32,568 | 19,936 | 123 | 58,316 | 110,943 |
| Revaluation | 30,000 | 0 | 0 | 0 | 30,000 |
| Additions | 828 | 4,860 | 2 | 5,061 | 10,751 |
| Transfers from WIP | 58,113 | 2,556 | 0 | (60,669) | 0 |
| Reclassification from Software WIP | 0 | 551 | 0 | 0 | 551 |
| Disposals | 0 | (14) | 0 | 0 | (14) |
| Depreciation charge | (4,370) | (6,345) | (39) | 0 | (10,754) |
| **Closing net book amount** | 117,139 | 21,544 | 86 | 2,708 | 141,477 |
| **At 30 June 2017** | | | | | |
| Cost | 166,041 | 137,357 | 417 | 2,708 | 306,523 |
| Accumulated depreciation | (48,902) | (115,813) | (331) | 0 | (165,046) |
| | 117,139 | 21,544 | 86 | 2,708 | 141,477 |

# Notes to the Consolidated Financial Statements *(continued)*

**FOR THE YEAR ENDED 30 JUNE 2018**

## 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 TVNZ 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 TVNZ 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 2018

## 12) INTANGIBLE ASSETS *(continued)*

| | Programme Rights $000 | Software $000 | Licences $000 | Total $000 |
|---|---|---|---|---|
| **Year ended 30 June 2018** | | | | |
| At 1 July 2017 net of accumulated amortisation and impairment | 37,997 | 17,333 | 1,643 | 56,973 |
| Additions (internally generated) | 47,887 | 0 | 0 | 47,887 |
| Additions (externally purchased) | 159,166 | 5,376 | 0 | 164,542 |
| Reclassifications | 0 | (537) | 0 | (537) |
| Disposals | 0 | (327) | 0 | (327) |
| Amortisation charge | (180,808) | (4,885) | (133) | (185,826) |
| Impairment | (9,400) | 0 | 0 | (9,400) |
| **Closing net book amount** | 54,842 | 16,960 | 1,510 | 73,312 |
| **At 30 June 2018** | | | | |
| Cost | 228,070 | 82,420* | 3,109 | 313,599 |
| Accumulated amortisation and impairment | (173,228) | (65,460) | (1,599) | (240,287) |
| | 54,842 | 16,960 | 1,510 | 73,312 |
| Current asset | 54,842 | 0 | 0 | 54,842 |
| Non-current asset | 0 | 16,960 | 1,510 | 18,470 |
| | 54,842 | 16,960 | 1,510 | 73,312 |
| **Year ended 30 June 2017** | | | | |
| At 1 July 2016 net of accumulated amortisation and impairment | 46,077 | 17,206 | 1,454 | 64,737 |
| Additions (internally generated) | 41,165 | 0 | 0 | 41,165 |
| Additions (externally purchased) | 138,048 | 6,144 | 0 | 144,192 |
| Reclassifications | 0 | (551) | 322 | (229) |
| Disposals | 0 | 0 | 0 | 0 |
| Amortisation charge | (179,250) | (5,466) | (133) | (184,849) |
| Impairment | (8,043) | 0 | 0 | (8,043) |
| **Closing net book amount** | 37,997 | 17,333 | 1,643 | 56,973 |
| **At 30 June 2017** | | | | |
| Cost | 240,356 | 78,068* | 3,109 | 321,533 |
| Accumulated amortisation and impairment | (202,359) | (60,735) | (1,466) | (264,560) |
| | 37,997 | 17,333 | 1,643 | 56,973 |
| Current asset | 37,997 | 0 | 0 | 37,997 |
| Non-current asset | 0 | 17,333 | 1,643 | 18,976 |
| | 37,997 | 17,333 | 1,643 | 56,973 |

*Included in software are assets under development of $3,445,000 (2017: $2,563,000).

# Notes to the Consolidated Financial Statements *(continued)*

**FOR THE YEAR ENDED 30 JUNE 2018**

### 13) GROUP COMPANIES

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

Subsidiaries of Television New Zealand Limited comprise:

| | | % holding | |
|---|---|---|---|
| Name | Principal activity | **2018** | **2017** |
| 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% |

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

### 14) INTEREST IN JOINT VENTURES

**Accounting policy**
TVNZ'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, TVNZ'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.

| | | | % holding | |
|---|---|---|---|---|
| Name | Balance Date | Principal activity | **2018** | **2017** |
| Freeview Limited | 30 June | Free to air digital platform | 44.9% | 44.9% |
| KPEX Limited | 31 March | Advertising services | 25.0% | 25.0% |

| | **2018** | **2017** |
|---|---|---|
| | $000 | $000 |
| **Movement in carrying amount of the Group's investment in joint ventures** | | |
| At 1 July | 128 | 112 |
| Increase in investment | 0 | 0 |
| Share of profits/(losses) after income tax | (43) | 16 |
| **At 30 June** | 85 | 128 |

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

# Notes to the Consolidated Financial Statements *(continued)*

**FOR THE YEAR ENDED 30 JUNE 2018**

## 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.

| | 2018 $000 | 2017 $000 |
|---|---|---|
| **Current** | | |
| Bank overdraft (unsecured) | 0 | 45 |

TVNZ has a revolving cash advance facility committed to a maximum amount of $20 million (June 2017: $20 million); these facilities expire in December 2019. There were no borrowings on this facility during the year. Refer Note 20 for details on management of interest rate risk related to borrowings.

a) Fair values
As at 30 June the carrying amount of TVNZ'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 TVNZ 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.

| | 2018 $000 | 2017 $000 |
|---|---|---|
| **Current** | | |
| Trade payables and accruals | 62,377 | 49,904 |
| Tax payable | 1,720 | 1,190 |
| | 64,097 | 51,094 |
| Employee entitlements | | |
| Current | 3,794 | 4,580 |
| Non-current | 941 | 1,202 |
| | 4,735 | 5,782 |

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 2018**

## 17) DEFERRED INCOME

| | 2018<br>$000 | 2017<br>$000 |
|---|---|---|
| Programme funding (NZOA/TMP) | 823 | 881 |
| Other | 2,670 | 2,057 |
| | 3,493 | 2,938 |

Programme 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 Māngāi Paho (TMP) provide funding for the production and broadcast of specific programmes.

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

## 18) PROVISIONS

**Accounting policy**
Provisions are recognised when TVNZ has a 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<br>$000 | Onerous Contract<br>$000 | Make good<br>$000 | Total<br>$000 |
|---|---|---|---|---|
| At 1 July 2017 | 2,997 | 4,357 | 759 | 8,113 |
| Raised during the year | 145 | 0 | 0 | 145 |
| Utilised during the year | (2,743) | (4,357) | 0 | (7,100) |
| Reversed during the year | (26) | 0 | 0 | (26) |
| **At 30 June 2018** | 373 | 0 | 759 | 1,132 |
| Current | 373 | 0 | 0 | 373 |
| Non-current | 0 | 0 | 759 | 759 |
| **At 30 June 2018** | 373 | 0 | 759 | 1,132 |
| Current 2017 | 2,997 | 0 | 0 | 2,997 |
| Non-current 2017 | 0 | 4,357 | 759 | 5,116 |
| At 30 June 2017 | 2,997 | 4,357 | 759 | 8,113 |

# Notes to the Consolidated Financial Statements *(continued)*

FOR THE YEAR ENDED 30 JUNE 2018

## 18) PROVISIONS *(continued)*

**Nature and timing of provision**

*Reorganisation*

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 TVNZ's strategy and technology changes.

*Onerous contract*

Due to a combination of deteriorating programme performance and changes in market conditions, the forecast income for the remainder of a studio programme rights contract is lower than the cost for which TVNZ is currently obligated under the contract. The net obligation under the contract was provided for in the prior year. The provision was calculated as the net of estimated revenue and the estimate of committed programme purchase commitments discounted to present values and has been fully utilised in the current year.

*Make good*

At the expiration of property leases TVNZ is required to restore the property to a standard as specified in the lease agreement. The estimated costs to restore the property have been prepared by independent advisors.

## 19) DERIVATIVES

**Accounting policy**

TVNZ uses derivative financial instruments, within predetermined policies and limits, to manage its exposure to foreign currency exchange rate risk. TVNZ 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 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.

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.

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, TVNZ does not engage in speculative transactions or hold derivative financial instruments for trading purposes.

# Notes to the Consolidated Financial Statements *(continued)*

**FOR THE YEAR ENDED 30 JUNE 2018**

### 19) DERIVATIVES *(continued)*

| | 2018 | 2017 |
|---|---|---|
| | $000 | $000 |
| **Current assets** | | |
| Forward currency contracts | 808 | 0 |
| Forward currency contracts - fair value hedge | 32 | 68 |
| Foreign currency embedded derivative contracts | 0 | 98 |
| | 840 | 166 |
| **Non-current assets** | | |
| Forward currency contracts | 279 | 183 |
| Foreign currency embedded derivative contracts | 0 | 3 |
| | 279 | 186 |
| **Current liabilities** | | |
| Forward currency contracts | 0 | 921 |
| Forward currency contracts - fair value hedge | 32 | 68 |
| Foreign currency embedded derivative contracts | 79 | 0 |
| | 111 | 989 |
| **Non-current liabilities** | | |
| Forward currency contracts | 0 | 0 |
| Forward currency contracts - fair value hedge | 0 | 0 |
| Foreign currency embedded derivative contracts | 0 | 0 |
| | 0 | 0 |

a) Instruments used by TVNZ
Derivative financial instruments are used by TVNZ in the normal course of business in order to hedge exposures to fluctuations in foreign exchange.

i) Forward currency contracts
TVNZ 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.

| | 2018 | 2017 |
|---|---|---|
| | NZD $000 | NZD $000 |
| Buy AUD/Sell NZD - Maturity 0-12 months | 53,641 | 53,636 |
| Buy AUD/Sell NZD - Maturity 13-24 months | 19,427 | 26,829 |
| Buy AUD/Sell NZD - Maturity 25-36 months | 6,472 | 7,406 |

# Notes to the Consolidated Financial Statements *(continued)*

FOR THE YEAR ENDED 30 JUNE 2018

## 19) DERIVATIVES *(continued)*

ii) Forward currency contracts – fair value hedge
TVNZ 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.

| | 2018<br>NZD<br>$000 | 2017<br>NZD<br>$000 |
|---|---|---|
| **Forward currency contracts – fair value hedge** | | |
| Buy AUD/Sell NZD - Maturity 0 - 12 months | 434 | 1,937 |

iii) Foreign currency embedded derivative contracts
TVNZ 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 | 5,654 | 11,114 |
| Sell AUD/Buy NZD - Maturity 13-36 months | 18 | 141 |

## 20) FINANCIAL RISK FACTORS

TVNZ's activities expose it to a variety of financial risks including currency risk, credit risk and liquidity risk. TVNZ's overall risk management policy seeks to minimise potential adverse effects on TVNZ'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. TVNZ enters into derivative transactions, principally forward currency contracts, only if they relate to underlying exposures.

TVNZ 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**
TVNZ undertakes transactions denominated in foreign currencies, predominately Australian dollars, for programme rights' purchases. As a result of these transactions TVNZ has exposure to foreign exchange risk. TVNZ's foreign exchange policy is to hedge a portion of material foreign currency denominated costs at the time of the commitment on a rolling 36 month basis. TVNZ 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.

# Notes to the Consolidated Financial Statements *(continued)*

**FOR THE YEAR ENDED 30 JUNE 2018**

## 20) FINANCIAL RISK FACTORS *(continued)*

At 30 June TVNZ had the following foreign currency exposures.

| | 2018 $000 | 2017 $000 |
|---|---|---|
| **Financial assets** | | |
| Cash and cash equivalents | 194 | 421 |
| Trade and other receivables | 22 | 32 |
| | 216 | 453 |
| **Financial liabilities** | | |
| Trade and other payables | (26,019) | (17,115) |
| | (26,019) | (17,115) |
| **Foreign currency derivatives** | | |
| Forward contracts | 79,974 | 89,808 |
| Embedded derivatives | (5,672) | (11,255) |
| | 74,302 | 78,553 |
| **Total net exposure** | 48,499 | 61,891 |

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% $000 | (10%) $000 | +10% $000 | (10%) $000 |
| **2018** | (3,581) | 3,581 | (3,581) | 3,581 |
| 2017 | (4,254) | 4,254 | (4,254) | 4,254 |

**Interest rate risk**

TVNZ's exposure to interest rate risk relates primarily to cash equivalents.

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

| | 2018 $000 | 2017 $000 |
|---|---|---|
| **Financial assets** | | |
| Cash and cash equivalents | 39,268 | 42,971 |
| **Financial liabilities** | | |
| Bank overdrafts | 0 | (45) |
| **Net exposure** | 39,268 | 42,926 |

TVNZ's interest rate policy is to have between 0% and 100% of its borrowings at fixed rates over the medium term. TVNZ 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 2018 (30 June 2017: nil).

# Notes to the Consolidated Financial Statements *(continued)*

**FOR THE YEAR ENDED 30 JUNE 2018**

## 20) FINANCIAL RISK FACTORS *(continued)*

**Credit risk**

Credit risk is the risk of financial loss to TVNZ if a customer or counterparty to a financial instrument fails to meet its obligations. In the normal course of business TVNZ incurs credit risk with financial institutions and trade receivables. TVNZ 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 TVNZ. TVNZ has a credit insurance policy for a selected range of agencies, to protect against loss through default. TVNZ does not have any other significant concentrations of credit risk.

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

At 30 June 2018 TVNZ has available $20,000,000 (2017: $20,000,000) of undrawn committed facilities. These bank facilities expire in December 2019.

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

| | 2018 | | | |
|---|---|---|---|---|
| **Group** | Within one year $000 | One to two years $000 | Two to five years $000 | Total $000 |
| Bank overdraft | 0 | 0 | 0 | 0 |
| Trade and other payables | 64,097 | 0 | 0 | 64,097 |
| Employee benefits | 3,794 | 188 | 753 | 4,735 |
| Forward exchange contracts - outflow | 54,075 | 19,427 | 6,472 | 79,974 |
| Forward exchange contracts - inflow | (54,883) | (19,626) | (6,552) | (81,061) |
| | 67,083 | (11) | 673 | 67,745 |

| | 2017 | | | |
|---|---|---|---|---|
| **Group** | Within one year $000 | One to two years $000 | Two to five years $000 | Total $000 |
| Bank overdraft | 45 | 0 | 0 | 45 |
| Trade and other payables | 51,094 | 0 | 0 | 51,094 |
| Employee benefits | 4,580 | 240 | 962 | 5,782 |
| Forward exchange contracts - outflow | 55,573 | 26,829 | 7,406 | 89,808 |
| Forward exchange contracts - inflow | (54,652) | (26,980) | (7,438) | (89,070) |
| | 56,640 | 89 | 930 | 57,659 |

## 20) FINANCIAL RISK FACTORS *(continued)*

**Fair value**

TVNZ 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 value of land and buildings is estimated using level 3 criteria, refer to Note 11 for valuation details. The fair values of these Level 2 and Level 3 valuations are presented in the following table.

| | 2018<br>$000 | 2017<br>$000 |
|---|---|---|
| **Financial assets** | | |
| Derivative instruments | | |
| Foreign currency contracts | 1,119 | 251 |
| Foreign currency embedded derivative contracts | 0 | 101 |
| | 1,119 | 352 |
| **Financial liabilities** | | |
| Derivative instruments | | |
| Foreign currency contracts | 32 | 989 |
| Foreign currency embedded derivative contracts | 79 | 0 |
| | 111 | 989 |

**Capital management**

TVNZ'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. TVNZ targets a gearing ratio of less than 40% (refer note 27e).

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

# Notes to the Consolidated Financial Statements *(continued)*

**FOR THE YEAR ENDED 30 JUNE 2018**

## 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 2018 there were 140,000,000 shares ($1 each) issued and fully paid (2017: 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 TVNZ's residual assets.

**Revaluation reserve**

| | 2018<br>$000 | 2017<br>$000 |
|---|---|---|
| **Movement in Revaluation reserve:** | | |
| Opening balance | 30,000 | 0 |
| Charged to other comprehensive income (net of tax) | 19,864 | 30,000 |
| Closing balance at 30 June | 49,864 | 30,000 |

## 22) CASH FLOW STATEMENT RECONCILIATION

| | 2018<br>$000 | 2017<br>$000 |
|---|---|---|
| **Reconciliation of net profit after tax to net cash flows from operations** | | |
| Net profit | 5,081 | 1,392 |
| **Adjustments for:** | | |
| Depreciation and amortisation (excluding programme rights) | 19,510 | 16,353 |
| Loss/(gain) on disposal of property, plant and equipment | 328 | 4 |
| Unrealised foreign currency losses/(gains) | (1,309) | (2,109) |
| Share of associate net results and provisions | 43 | (16) |
| Impairment of programme rights | 5,043 | 8,043 |
| **Changes in assets and liabilities** | | |
| (Increase)/decrease in trade and other receivables | 3,260 | (2,605) |
| (Increase)/decrease deferred tax asset | (52) | (4,023) |
| (Increase)/decrease programme rights | (21,888) | 37 |
| Increase/(decrease) trade and other payables | 11,094 | 3,389 |
| Increase/(decrease) deferred income | 555 | 1,017 |
| Increase/(decrease) income tax payable | 530 | 2,014 |
| Increase/(decrease) provisions | (6,981) | 7,014 |
| **Net cash from operating activities** | 15,214 | 30,510 |

# Notes to the Consolidated Financial Statements *(continued)*

**FOR THE YEAR ENDED 30 JUNE 2018**

## 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.

b) Joint venture

The following table provides the total amount of transactions that were entered into with joint ventures.

| | 2018<br>$000 | 2017<br>$000 |
|---|---|---|
| **Joint venture** | | |
| Revenue from Freeview Limited | 914 | 758 |
| Purchases from Freeview Limited | 417 | 495 |
| | | |
| Amounts owed by Freeview Limited | 1,365 | 485 |
| Amounts owed by KPEX Limited | 43 | 1 |

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 NZOA and TMP | 5,524 | 4,864 |
| Revenue from Crown entities | 1,473 | 1,650 |
| Purchases from Crown entities | 8,109 | 8,092 |
| | | |
| Amounts owed by Crown entities | 160 | 542 |
| Amounts owed to Crown entities | 258 | 230 |
| | | |
| Revenue in advance from NZOA and TMP | 823 | 881 |

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 Directors, 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 (including termination benefits) | 5,674 | 6,176 |
| Defined contribution superannuation expense | 261 | 298 |
| | 5,935 | 6,474 |
| | | |
| Directors' Fees | 406 | 392 |

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 2018**

## 24) COMMITMENTS

| | 2018 | 2017 |
|---|---|---|
| | $000 | $000 |
| a) Programme rights | | |
| Within one year | 84,404 | 94,259 |
| One to five years | 102,436 | 150,339 |
| | 186,840 | 244,598 |

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.

| | 2018 | 2017 |
|---|---|---|
| b) Operating leases | | |
| Within one year | 961 | 1,297 |
| One to five years | 841 | 1,484 |
| | 1,802 | 2,781 |
| c) Property, plant and equipment and software | | |
| Within one year | 697 | 1,056 |

## 25) CONTINGENT LIABILITIES

In the normal course of business various defamation claims have been made against TVNZ. Given the absence of quantified claims in these 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.

The liquidator of an overseas sales agency has made a voidable preference claim against TVNZ for advertising revenue received by TVNZ in the period leading up to that agency entering liquidation. The liquidator has not commenced legal proceedings and TVNZ does not believe there is a basis for the claim. Accordingly, no provision for any liability has been made in the financial statements.

## 26) EVENTS AFTER THE BALANCE SHEET DATE

On 24 August 2018 the Board of Directors declared a final dividend of $3,749,000, 2.68 cents per share, to be paid in September 2018.

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

# Notes to the Consolidated Financial Statements *(continued)*

**FOR THE YEAR ENDED 30 JUNE 2018**

### 27) COMPARISON OF FORECAST TO ACTUAL RESULTS

| | Actual<br>$000 | Forecast<br>$000 |
|---|---|---|
| **a) Financial performance** | | |
| Revenue | 318,509 | 299,520 |
| Operating expenses | (293,907) | (281,419) |
| EBITDAF | 24,602 | 18,101 |
| | | |
| Interest income | 917 | 305 |
| Interest expense | (105) | (96) |
| Depreciation and amortisation | (19,510) | (13,470) |
| Financial instruments/foreign currency gains/(losses) | 1,309 | (1,775) |
| Share of results of joint venture | (43) | 0 |
| Income tax expense | (2,089) | (841) |
| Net profit for the year | 5,081 | 2,224 |
| | | |
| **b) Movements in equity** | | |
| Net profit for the year | 5,081 | 2,224 |
| | | |
| Distributions to the shareholder | (9,016) | (4,782) |
| Other comprehensive income | 19,864 | 0 |
| Movements in equity for the year | 15,929 | (2,558) |
| Equity at start of the year | 226,714 | 227,336 |
| Equity at end of the year | 242,643 | 224,778 |

The FY2018 television advertising market stabilised resulting in advertising revenues that were comparable to the prior year. Additional investments in programming were made during the year to strengthen both free to air and OnDemand customer offerings. Depreciation was higher than forecast due to the timing of capital expenditure and final assessments of the refurbishment of the Television Centre. Fair value changes in financial instruments are inherently volatile due to fluctuating exchange rates and the value of the NZD at 30 June was lower than forecast resulting in unrealised gains at year end. The income tax variance is primarily due to higher taxable profits.

| | Actual<br>$000 | Forecast<br>$000 |
|---|---|---|
| **c) Financial position** | | |
| Current assets | 141,118 | 124,514 |
| Non-current assets | 175,093 | 156,029 |
| Total assets employed | 316,211 | 280,543 |
| | | |
| Current liabilities | 71,868 | 54,081 |
| Non-current liabilities | 1,700 | 1,684 |
| Total liabilities | 73,568 | 55,765 |
| | | |
| Share capital | 140,000 | 140,000 |
| Revaluation reserve | 49,864 | 30,000 |
| Retained earnings | 52,779 | 54,778 |
| Total equity | 242,643 | 224,778 |
| Total equity and liabilities | 316,211 | 280,543 |

# Notes to the Consolidated Financial Statements *(continued)*

**FOR THE YEAR ENDED 30 JUNE 2018**

### 27) COMPARISON OF FORECAST TO ACTUAL RESULTS *(continued)*

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

Current assets are above forecast due to the investment in additional programme rights. Non-current assets are above forecast and reflect the current years revaluation of land and buildings. Current liabilities are above forecast due to higher levels of payables resulting from additional programme acquisitions.

| | Actual<br>$000 | Forecast<br>$000 |
|---|---|---|
| **d) Cash flows** | | |
| Net cash flows from/(to): | | |
| Operating activities | 15,214 | 12,561 |
| Investing activities | (9,859) | (10,000) |
| Financing activities | (9,016) | (4,782) |
| Net (decrease)/increase in cash held | (3,661) | (2,221) |
| Add opening cash brought forward | 42,926 | 39,325 |
| Net foreign exchange differences | 3 | 0 |
| Ending cash carried forward | 39,268 | 37,104 |

Increased revenue has been partly offset by increased levels of expenditure on programme investment that have resulted in above forecast cash flows from operating activities. Cash flows to investing activities are in line with forecast. The dividend from the FY2017 operating result was greater than forecast.

| | | |
|---|---|---|
| **e) Performance targets** | | |
| *Profitability* | | |
| Return on average equity | 2.2% | 1.0% |
| *Gearing* | | |
| Net interest bearing debt/net interest bearing debt plus equity | 0.0% | < 40% |
| *Financial stability* | | |
| Total equity/total assets | 76.8% | > 40% |
| *Interest cover* | | |
| EBITDAF/interest expense | 234 times | > 4 times |

EBITDAF – Earnings before interest, tax, depreciation and amortisation, financial instruments and joint venture

**Forecast amounts**

The forecast amounts are those approved by the Board before the beginning of the 2018 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.

# Report of the Auditor-General

Building a better working world

## To the shareholders of Television New Zealand Limited for the year ended 30 June 2018.

The Auditor-General is the auditor of Television New Zealand Limited (the Group). The Auditor-General has appointed me, Susan Jones, using the staff and resources of Ernst & Young, to carry out the audit of the financial statements and the performance information, of the Group on his behalf.

### OPINION

We have audited:

- the financial statements of the Group on pages 29 to 60, that comprise the statement of financial position as at 30 June 2018, the income statement, 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 including a summary of significant accounting policies.

In our opinion:

- the financial statements of the Group on pages 29 to 60:
    - present fairly, in all material respects:
        - its financial position as at 30 June 2018; and
        - its financial performance and cash flows for the year then ended; and
    - comply with generally accepted accounting practice in New Zealand in accordance with International Financing Reporting Standards and NZ equivalents to International Financial Reporting Standards.

Our audit was completed on 24 August 2018. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board and our responsibilities relating to the financial statements, we comment on other information, and we explain our independence.

### BASIS FOR OUR OPINION

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

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

### RESPONSIBILITIES OF THE BOARD FOR THE FINANCIAL STATEMENTS

The Board is responsible on behalf of the entity for preparing financial statements that are fairly presented and comply with generally accepted accounting practice in New Zealand. The Board is responsible for such internal control as it determines is necessary to enable it to prepare financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board is responsible on behalf of the entity for assessing the Group's ability to continue as a going concern. The Board

# Report of the Auditor-General

is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to merge or to terminate the activities of the Group, or there is no realistic alternative but to do so.

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

### RESPONSIBILITIES OF THE AUDITOR FOR THE AUDIT OF THE FINANCIAL STATEMENTS.

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers, taken on the basis of these financial statements.

For the forecast budget information reported in the financial statements, our procedures were limited to checking that the information agreed to the Group's statement of performance expectations.

We did not evaluate the security and controls over the electronic publication of the financial statements.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit 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.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence

# Report of the Auditor-General

Building a better working world

obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

## OTHER INFORMATION

The Board is responsible for the other information. The other information comprises the information included on pages 3 to 69, but does not include the financial statements, and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## INDEPENDENCE

We are independent of the Group in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

We have provided other assurance, agreed upon procedure services and remuneration benchmarking services to the Group. Other than the audit and these other services, we have no relationship with or interests in the Group.

Susan E Jones

**Susan Jones**
Ernst & Young
Chartered Accountants
On behalf of the Auditor-General
Auckland, New Zealand

# Additional Information

## PRINCIPAL ACTIVITY

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

## SHAREHOLDING

TVNZ is wholly owned by the Crown.

The Shareholding Ministers at balance date were:

| | |
|---|---|
| Hon Grant Robertson | Minister of Finance |
| Hon Clare Curran | Minister of Broadcasting, Communications & Digital Media |

## DIRECTORS

Ms Sussan Turner's term ended 1 May 2018.

## AUDITOR

The Auditor-General is the auditor of TVNZ in accordance with Section 14 (1) of the Public Audit Act 2001 and has appointed Susan Jones of Ernst & Young to act for and on his behalf as auditor in 2018.

## 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 2018:

**Dame Therese Walsh (Chairman)**

| | |
|---|---|
| Air New Zealand Limited | Director |
| Antarctica New Zealand | Director |
| ASB Bank Limited | Director |
| NZ Major Events Investment Panel, MBIE | Member |
| On Being Bold Limited | Director |
| Therese Walsh Consulting Limited | Director |
| Victoria University of Wellington | Pro-Chancellor |
| Wellington Women's Homeless Trust | Ambassador |
| Wellington Regional Stadium Trust | Trustee |

**R Andrew Coupe**

| | |
|---|---|
| Barramundi Limited | Director |
| Briscoe Group Limited | Director |
| Farmright Limited | Chair |
| Gentrack Group Limited | Director |
| Kingfish Limited | Director |
| Marlin Global Limited | Director |
| NZ Takeovers Panel | Chair |

**Abigail Foote**

| | |
|---|---|
| Freightways Limited | Director |
| Livestock Improvement Corporation Limited | Director |
| Museum of New Zealand Te Papa Tongarewa | Director |
| Sanford Limited | Director |
| Z Energy Limited and subsidiaries | Director |

**Cameron Harland**

| | |
|---|---|
| CricHQ Holdings Limited | Chief Executive Officer |
| NZ Story Group | Chair |
| Weta Workshop Limited | Director |

**Tokorangi Kapea**

| | |
|---|---|
| Bathurst Resources Limited | Chair |
| Iron Duke Exploration Limited | Chair |
| Te Runanga o NgaiTakoto Custodian Trustee Limited | Director |
| Tuia Group Limited and subsidaries | Director/Partner |

**Kevin Malloy**

| | |
|---|---|
| Dingle Foundation | Trustee |
| Halberg Foundation | Trustee |
| Kiwibank Limited | Director |
| km54 Limited | Director |
| The Social Club | Director |

**Julia Raue**

| | |
|---|---|
| Jade Software Corporation Limited | Director |
| Rowdy Consulting Limited | Director |
| Southern Cross Health Society | Director |
| The Treasury, Risk and Audit Committee | Member |
| The Warehouse Group Limited | Director |
| Z Energy Limited and subsidiaries | Director |

## 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 & 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 | $ |
|---|---|
| Dame Therese Walsh | 89,350 |
| Andrew Coupe | 55,844 |
| Abigail Foote | 44,675 |
| Cameron Harland | 44,675 |
| Tokorangi Kapea | 44,675 |
| Kevin Malloy | 44,675 |
| Julia Raue | 44,675 |
| Sussan Turner (term ended 1 May) | 37,229 |
| | 405,798 |

# Additional Information

## DIRECTORS' INDEMNITY INSURANCE

TVNZ arranged Directors' and Officers' liability insurance cover with QBE Insurance (International) Limited for $30 million. This cover was effected for all Directors and Officers of TVNZ. In addition TVNZ holds Statutory Liability cover with QBE for the benefit of Directors and Officers which provided $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 remuneration paid during the year is detailed below:

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| Base Salary | 840,857 | 840,857 |
| Holiday Pay | 60,155 | 41,588 |
| Fixed Remuneration | 901,012 | 882,445 |
| Short Term Performance Incentive | 460,054 | 409,727 |
| Superannuation | 67,841 | 64,401 |
| Total | 1,428,907 | 1,356,573 |

Note:

- Short Term Performance Incentive
  The FY2018 short term performance incentive paid to the Chief Executive in September 2017 related to his performance against the criteria set for FY2017.
- 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.

## 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.

TVNZ is committed to paying its permanent employees the living wage as a minimum and has done so since 2014.

| | Current employees | Former employees |
|---|---|---|
| $100,000 to $110,000 | 44 | 7 |
| $110,001 to $120,000 | 35 | 2 |
| $120,001 to $130,000 | 22 | 2 |
| $130,001 to $140,000 | 21 | 4 |
| $140,001 to $150,000 | 12 | 1 |
| $150,001 to $160,000 | 8 | 5 |
| $160,001 to $170,000 | 9 | 0 |
| $170,001 to $180,000 | 6 | 1 |
| $180,001 to $190,000 | 5 | 2 |
| $190,001 to $200,000 | 12 | 1 |
| $200,001 to $210,000 | 2 | 1 |
| $210,001 to $220,000 | 3 | 1 |
| $220,001 to $230,000 | 1 | 2 |
| $230,001 to $240,000 | 5 | 2 |
| $240,001 to $250,000 | 3 | 0 |
| $250,001 to $260,000 | 2 | 0 |
| $260,001 to $270,000 | 1 | 0 |
| $270,001 to $280,000 | 1 | 0 |
| $280,001 to $290,000 | 3 | 0 |
| $290,001 to $300,000 | 1 | 0 |
| $320,001 to $330,000 | 1 | 0 |
| $330,001 to $340,000 | 1 | 1 |
| $340,001 to $350,000 | 1 | 0 |
| $370,001 to $380,000 | 0 | 1 |
| $380,001 to $390,000 | 1 | 0 |
| $390,001 to $400,000 | 2 | 0 |
| $400,001 to $410,000 | 1 | 0 |
| $410,001 to $420,000 | 1 | 0 |
| $440,001 to $450,000 | 3 | 0 |
| $450,001 to $460,000 | 1 | 0 |
| $470,001 to $480,000 | 1 | 0 |
| $510,001 to $520,000 | 1 | 0 |
| $610,001 to $620,000 | 0 | 1 |
| $720,001 to $730,000 | 1 | 0 |
| $1,420,001 to $1,430,000 | 1 | 0 |
| | 212 | 34 |

## EMPLOYEE COMPENSATION ON TERMINATION OF EMPLOYMENT

During the year $3,643,823 compensation was paid in total to 65 employees whose employment was terminated. Compensation includes redundancy entitlements, payment in lieu of notice and any payments in settlement of disputes.

# Corporate Governance

## The Board

### ROLE OF THE BOARD

In addition to its duties under the Television New Zealand Act 2003 and 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, being the Minister of Broadcasting, Communications and Digital Media, and the Minister of Finance, 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. Profiles of each of the Directors who were serving at year end are set out on page 68 of this report.

### BOARD COMMITTEES

The Board has two standing committees:

*Audit and Risk Committee*
The Audit and Risk Committee met four 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 Abby Foote (Chair), Andy Coupe, Kevin Malloy, Julia Raue and Dame Therese Walsh.

*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 People and Talent plans and practices at a strategic level, the Committee approves any movement to the remuneration of the Company's senior executives and presenters. 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 Andy Coupe (Chair), Cameron Harland, Toko Kapea and Dame Therese Walsh.

## 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 would not be materially affected and could continue to operate in line with its statutory obligations.

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. Derivative instruments are used by the Company to manage specific business risk; they are not used for speculative purposes.

### 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 Susan Jones of Ernst & Young to act as external auditor on his 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.

## 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 Company's online news and entertainment output of the Company's websites was subject to the jurisdiction of the Media Council (formerly known as the Press Council).

# Director Profiles

Pictured back row, left to right:
Kevin Malloy, Andy Coupe,
Dame Therese Walsh,
Abby Foote, Julia Raue.
Front, left to right:
Toko Kapea, Cameron Harland.

## Dame Therese Walsh

**CHAIRMAN—WELLINGTON**

Dame Therese is a director of ASB Bank Limited, Antarctica NZ and Air NZ Limited, a trustee of the Wellington Regional Stadium Trust, and pro-chancellor of Victoria University. She is also a member of MBIE's Major Events Investment Panel. 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 NZX Limited, 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.

## Andy Coupe

**DEPUTY CHAIR—HAMILTON**

Andy is a professional director who has had more than 30 years' experience in investment banking. He is a director of Farmright Ltd (which he chairs), Gentrack Group Ltd, Briscoe Group Ltd, Kingfish Ltd, Barramundi Ltd, and Marlin Global Ltd. He is also chair of the New Zealand Takeovers Panel. Andy is a chartered member of the Institute of Directors.

## Abby Foote

**CHRISTCHURCH**

Abby is a professional director with experience as a director of both NZX and Crown companies. With qualifications in both law and accounting, Abby's career has covered both disciplines, focusing on corporate finance, treasury and commercial transactions. She has a breadth of experience in a number of diverse areas including mergers and acquisitions, treasury and structured finance transactions, telecommunications, management of large projects and strategic development and implementation. Abby is a director of Z Energy Limited where she chairs the health, safety, security and environment committee, Sanford Limited and Freightways Limited. She is also a board member and the chair of the audit and risk committees of each of Museum of New Zealand Te Papa Tongarewa and Livestock Improvement Corporation Limited. Abby's previous governance experience includes Transpower New Zealand Limited and the New Zealand Local Government Funding Agency Limited.

## Cameron Harland

**WELLINGTON**

Cameron is chief executive of CricHQ a fan engagement platform established for cricket and used throughout the world. Prior to this he ran a number of businesses within the broader Weta creative group including Park Road Post Production, a high-end post production facility; Portmouth Rentals, a lighting and camera rental business and Camperdown Limited, which owns the Stone Street Studios operation. Cameron is the chair of the New Zealand Story Group and a director of Weta Workshop. He has a strong advertising and media background having held roles at Saatchi & Saatchi Wellington and London, and sports management at New Zealand Rugby. Cameron was educated at Victoria University of Wellington where he graduated with an LLB and BA.

## 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.  He is also on the board of Bathurst Resources Ltd and Duke Exploration Limited.

## Kevin Malloy

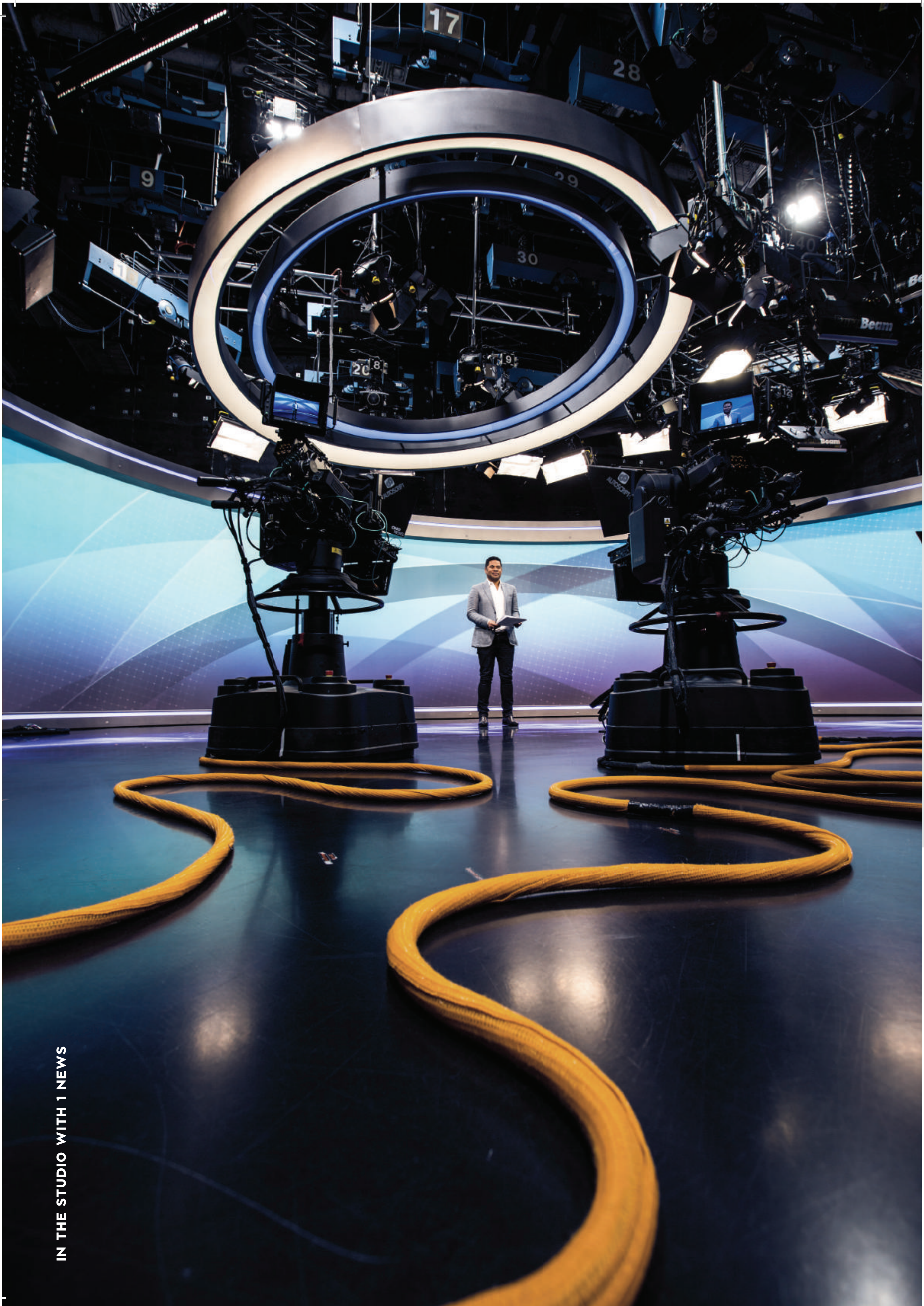
**AUCKLAND**

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 Kiwibank, St Peters College in Auckland, the Halberg Trust the Graeme Dingle Foundation and The Social Club.  Kevin also has a consulting role with Tourism NZ on their global media and digital strategy.

## Julia Raue

**AUCKLAND**

Julia is an independent director for Z Energy Limited, The Warehouse Group, 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.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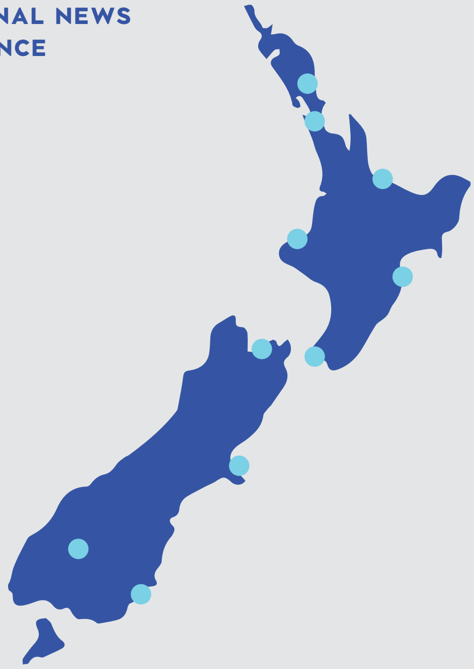
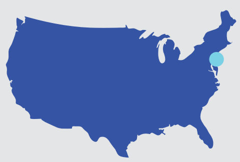
## NATIONAL NEWS PRESENCE



### AUSTRALIA

### UNITED KINGDOM

### UNITED STATES OF AMERICA

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