



**INTERIM REPORT
FINANCIAL YEAR 2018**



Re:





Television New Zealand Limited

Consolidated Interim Financial Statements for the six months ended 31 December 2017 (Unaudited)

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Chief Executive's Overview

TVNZ has made a positive start to the fiscal year. We've achieved strong TV and OnDemand audience reach and improved operational earnings through modest revenue growth and tightly managed costs.

Increased advertising revenue and lower operational expenses lifted TVNZ's earnings performance for the six months ended December – with the company reporting EBITDAF of \$30.2 million, up \$4.5 million (17.4%) on the same period last year.

Growth in both TV and online advertising income contributed to total revenue of \$170.4 million, up \$1.6 million (1.0%) year on year.

Operational expenses decreased \$2.8 million to \$140.1 million (2.0%), realising benefits from organisational restructuring in the previous financial year.

TVNZ posted an interim after tax net profit of \$17.2 million, up \$4.3 million (33.7%) on the previous year.

Given the strong first half performance and after reviewing potential future funding requirements, the TVNZ Board has declared a dividend of \$9,016,000 for the previous financial year.

In recent years TVNZ has focused on growing digital revenue to offset TV revenue declines. Against this back drop, it's encouraging for the business to achieve year on year growth in both TV and digital advertising revenue for the half year.

The pulling power of TVNZ content is the primary driver of business performance and our local and international content line up continues to resonate strongly with New Zealanders – reaching more than 2 million people every day across TVNZ 1, 2, DUKE, OnDemand and 1 NEWS NOW.

TVNZ's TV audience share strengthened to a five year high and it screened 18 of the 20 most watched programmes in the six months to 31 December, with the *1 NEWS Vote 2017 Leaders Debate* being the country's most watched programme.

September's General Election was a big moment for New Zealand and for TVNZ. 1 NEWS' comprehensive political 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.

TVNZ OnDemand cemented its status as the country's most popular free to view video on demand destination. Developments in the last six months include the launch of

live streaming of all TVNZ channels, a significant expansion of the content offering, and extended accessibility to Chromecast, Apple TV and Vodafone TV. As a result of these initiatives TVNZ OnDemand video streams increased to 42.2 million, up 5.9 million (16%) on the same period last year.

Re:, TVNZ's alternative social media news voice, has surpassed expectations. Re: is distributed via Facebook, Instagram and SnapChat and has achieved over 15 million video streams since launching in July.

Original content is TVNZ's strategic focus and competitive advantage. It's our sustainable point of difference in a market increasingly contested by global scale international players.

Over time TVNZ will tilt its content investment more towards local content. Viewers are already seeing our enhanced news presentation on screen with the recent 2018 relaunch of *1 NEWS at Six, Breakfast and Seven Sharp*. Our investment in immersive graphics and market leading studio technology will continue to enhance the presentation of our flagship local news content in 2018.

Major content investments in the months ahead include our extensive multiscreen coverage the Gold Coast 2018 Commonwealth Games, and new local event commissions *Project Runway NZ, Heartbreak Island, My Kitchen Rules NZ* and the second series of *Survivor NZ*.

Co-productions with international partners will enable TVNZ to tell New Zealand stories on a global stage. In the works are Scandi-New Zealand crime drama *Straight Forward* with ScreenTime NZ, Mastiff Denmark and Viaplay; fantasy drama *The New Legends of Monkey* with ABC Australia and Netflix; and competitive reality format *Spartan* and drama *800 Words* with *Seven Australia*.

We're set to launch new children's platform HEIHEI in May. A collaboration between NZ on Air and TVNZ, HEIHEI will be a safe, interactive ad-free space for New Zealand primary school aged children to explore and enjoy local media content online.

Competition from global players is expected to increase in 2018. In addition to growing share of TV and accelerating growth of OnDemand, TVNZ will actively explore adjacent market growth opportunities.

TVNZ is committed to sharing the moments that matter to New Zealand viewers and is on track to exceed its full year targets set out in its Statement of Performance Expectations.



Kevin Kenrick
Chief Executive

Consolidated Income Statement

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017 (UNAUDITED)

		CONSOLIDATED		
		6 MONTHS ENDED 31/12/17	6 MONTHS ENDED 31/12/16	YEAR ENDED 30/06/17
		\$000	\$000	\$000
	NOTES			
Operating revenue	3	170,371	168,741	316,523
Expenses				
Programming	4	(89,018)	(90,424)	(191,650)
Employee benefits		(22,527)	(24,303)	(48,022)
Transmission, technology and telecommunications		(9,379)	(9,351)	(18,830)
Premises and occupancy		(1,749)	(2,354)	(4,590)
Marketing		(4,836)	(3,821)	(9,624)
Other	5	(12,620)	(12,731)	(26,429)
		(140,129)	(142,984)	(299,145)
Earnings before depreciation and amortisation, interest, financial instruments, joint venture and tax (EBITDAF)		30,242	25,757	17,378
Depreciation and amortisation		(9,062)	(8,336)	(16,353)
Interest income		402	331	765
Interest expense		(69)	(74)	(99)
Financial instruments/foreign currency gains/(losses)		2,391	127	239
Share of results of joint venture		0	9	16
Profit for the period before tax		23,904	17,814	1,946
Income tax expense		(6,720)	(4,963)	(554)
Profit for the period		17,184	12,851	1,392

The accompanying notes form part of these financial statements.

Consolidated Statement of Comprehensive Income

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017 (UNAUDITED)

	CONSOLIDATED		
	6 MONTHS ENDED 31/12/17	6 MONTHS ENDED 31/12/16	YEAR ENDED 30/06/17
	\$000	\$000	\$000
Profit for the period	17,184	12,851	1,392
Other comprehensive income reclassifiable to profit or loss in subsequent periods			
Net changes in the fair value land and buildings	0	0	30,000
Other comprehensive income for the period net of income tax	0	0	30,000
Total comprehensive income for the period	17,184	12,851	31,392

Consolidated Statement of Changes in Equity

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017 (UNAUDITED)

	CONSOLIDATED			
	SHARE CAPITAL	REVALUATION RESERVE	RETAINED EARNINGS	TOTAL
	\$000	\$000	\$000	\$000
At 1 July 2017	140,000	30,000	56,714	226,714
Total comprehensive income	0	0	17,184	17,184
Equity transactions				
Dividend paid in the period	0	0	0	0
At 31 December 2017	140,000	30,000	73,898	243,898
At 1 July 2016	140,000	0	68,692	208,692
Total comprehensive income	0	0	12,851	12,851
Equity transactions				
Dividend paid in the period	0	0	(13,370)	(13,370)
At 31 December 2016	140,000	0	68,173	208,173
At 1 July 2016	140,000	0	68,692	208,692
Total comprehensive income	0	0	1,392	31,392
Equity transactions				
Dividend paid in the period	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 31 DECEMBER 2017 (UNAUDITED)

	NOTES	CONSOLIDATED	
		AS AT 31/12/17	AS AT 30/06/17
		\$000	\$000
ASSETS			
Current Assets			
Cash and cash equivalents		62,182	42,971
Trade and other receivables		51,100	49,435
Programme rights	4	37,168	37,997
Derivatives	8	1,694	166
Total current assets		152,144	130,569
Non-current Assets			
Property, plant and equipment		137,131	141,477
Other intangible assets		19,481	18,976
Deferred tax asset		4,761	4,339
Derivative financial instruments	8	679	186
Investment in joint venture		128	128
Total non-current assets		162,180	165,106
Total assets		314,324	295,675
LIABILITIES			
Current Liabilities			
Bank overdraft		0	45
Trade and other payables		55,618	49,904
Employee entitlements		4,089	4,580
Deferred income		1,390	2,938
Income tax payable		6,748	1,190
Derivatives	8	230	989
Provisions	7	683	2,997
Total current liabilities		68,758	62,643
Non-current liabilities			
Employee entitlements		909	1,202
Provisions	7	759	5,116
Total non-current liabilities		1,688	6,318
Equity			
Contributed equity		140,000	140,000
Revaluation reserves		30,000	30,000
Retained earnings		73,898	56,714
Total Equity		243,898	226,714
Total equity and liabilities		314,324	295,675

The accompanying notes form part of these financial statements.

Consolidated Statement of Cash Flows

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017 (UNAUDITED)

	NOTES	CONSOLIDATED		
		6 MONTHS ENDED 31/12/17	6 MONTHS ENDED 31/12/16	YEAR ENDED 30/06/17
		\$000	\$000	\$000
Cash flows from/(used in) operating activities				
Receipts from customers		173,086	170,801	308,876
Receipt of programme funding		2,098	2,075	5,153
Interest received		379	423	833
Payments to suppliers and employees		(149,430)	(143,406)	(281,690)
Interest paid		(69)	(74)	(99)
Income tax paid		(1,584)	(501)	(2,563)
Net cash flows from/(used in) operating activities	7	24,480	29,318	30,510
Cash flows from/(used in) investing activities				
Proceeds from sale of property, plant and equipment		2	0	10
Purchase of property, plant and equipment		(2,106)	(7,605)	(12,836)
Purchase of intangibles		(3,116)	(2,708)	(6,144)
Net cash flows from/(used in) investing activities		(5,222)	(10,313)	(18,970)
Cash flows from/(used in) financing activities				
Dividends paid		0	(13,370)	(13,370)
Net cash flows from/(used in) financing activities		0	(13,370)	(13,370)
Net increase/(decrease) in cash and cash equivalents		19,260	5,635	(1,830)
Net foreign exchange differences		(4)	1	35
Cash and cash equivalents at the beginning of the period		42,926	44,721	44,721
Cash and cash equivalents at the end of the period		62,182	50,357	42,926
Cash and cash equivalents comprise:				
Cash at bank and in hand		32,182	40,357	27,971
Short term deposits		30,000	10,000	15,000
Cash and cash equivalents		62,182	50,357	42,971
Bank overdrafts used for cash management purposes		0	0	(45)
Cash and cash equivalents in the statement of cash flows		62,182	50,357	42,926

The accompanying notes form part of these financial statements.

Notes to the Consolidated Financial Statements

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017 (UNAUDITED)

1. CORPORATE INFORMATION

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

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

These consolidated financial statements were approved for issue by the Board of Directors on 28 February 2017.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation

The unaudited interim financial statements for the six months ended 31 December 2017 have been prepared in accordance with NZ IAS 34 Interim Financial Reporting and the requirements of the Television New Zealand Act 2003.

The unaudited interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 30 June 2017. The classification of onerous contract and impairment is included in programming expenses and the comparatives have been restated accordingly. This reclassification has no impact on the overall financial performance or financial position of the comparative year.

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

b) Changes in accounting policies

The accounting policies used in the preparation of the unaudited interim financial statements are consistent with those used in the preparation of the Group's annual financial statements for the year ended 30 June 2017, unless otherwise stated.

3. OPERATING REVENUE

	6 MONTHS ENDED 31/12/17	6 MONTHS ENDED 31/12/16	YEAR ENDED 30/06/17
	\$000	\$000	\$000
Advertising revenue	162,195	159,424	299,166
Other trading revenue	8,176	9,317	17,357
	170,371	168,741	316,523

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

Other trading revenue includes revenue from production facilities, programme sales, commercial licensing and multi feed service.

Notes to the Consolidated Financial Statements

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017 (UNAUDITED)

4. PROGRAMMING

		6 MONTHS ENDED 31/12/17	6 MONTHS ENDED 31/12/16	YEAR ENDED 30/06/17
	NOTES	\$000	\$000	\$000
Programme utilisation		89,018	90,424	179,250
Programme rights impairment		4,357	0	8,043
Onerous contract	6	(4,357)	0	4,357
		89,018	90,424	191,650

Impairment on programme rights and a provision for expected future losses on a 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 31 December 2017, due to higher inventory received from the international contract than expected, the \$4.4m onerous provision recognised at 30 June 2017 was used to impair programme rights held at 31 December 2017. This has resulted in the onerous provision being reduced to nil at 31 December 2017. Management has assessed whether any further onerous provision is required at 31 December and have determined that no further provision is required. This will be reassessed at the next reporting date. The total onerous contract provision is calculated as the net of estimated revenue and the estimate of programme purchase commitments discounted to present values.

5. OTHER EXPENSES

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

6. PROVISIONS

	REORGANISATION	ONEROUS CONTRACT	MAKE GOOD	TOTAL
	\$000	\$000	\$000	\$000
At July 2017	2,997	4,357	759	8,113
Raised during the year	0	0	0	0
Transferred programme rights impairment	0	(4,357)	0	(4,357)
Utilised during the year	(2,314)	0	0	(2,314)
At 31 December 2017	683	0	759	1,442
Current	683	0	0	683
Non-current	0	0	759	759
At 31 December 2017	683	0	759	1,442
Current 30 June 2017	2,997	0	0	2,997
Non-current 30 June 2017	0	4,357	759	5,116
At 30 June 2017	2,997	4,357	759	8,113

Notes to the Consolidated Financial Statements

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017 (UNAUDITED)

7. RECONCILIATION OF PROFIT AFTER TAX TO NET CASH FLOW FROM OPERATING ACTIVITIES

	6 MONTHS ENDED 31/12/17	6 MONTHS ENDED 31/12/16	YEAR ENDED 30/06/17
	\$000	\$000	\$000
Net profit	17,184	12,851	1,392
Adjustments for:			
Depreciation and amortisation (excluding programme rights)	9,062	8,282	16,353
Loss/(gain) on disposal of property, plant and equipment	(1)	0	4
Unrealised foreign currency (gains)/losses	(2,388)	(126)	(2,109)
Share of associate net results and provisions	0	(9)	(16)
Impairment of programme rights	0	0	8,043
Changes in assets and liabilities			
(Increase)/decrease in trade and other receivables	(1,671)	1,325	(2,605)
(Increase)/decrease deferred tax asset	(422)	(370)	(4,023)
(Increase)/decrease programme rights	829	(2,431)	37
Increase/(decrease) trade and other payables	4,548	6,570	3,389
Increase/(decrease) deferred income	(1,548)	(507)	1,017
Increase/(decrease) income tax payable	5,558	4,832	2,014
Increase/(decrease) provisions	(6,671)	(1,099)	7,014
Net cash from operating activities	24,480	29,318	30,510

Notes to the Consolidated Financial Statements

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017 (UNAUDITED)

8. DERIVATIVE FINANCIAL INSTRUMENTS

	AS AT 31/12/17	AS AT 30/06/17
	\$000	\$000
Current Assets		
Forward currency contracts - held for trading	1,658	0
Forward currency contracts - fair value hedge	36	68
Foreign currency embedded derivative contracts	0	98
	1,694	166
Non-current Assets		
Forward currency contracts - held for trading	679	183
Foreign currency embedded derivative contracts	0	3
	679	186
Current Liabilities		
Forward currency contracts - held for trading	0	(921)
Forward currency contracts - fair value hedge	(36)	(68)
Forward currency embedded derivative contracts	(194)	0
	(230)	(989)

a) Instruments used by the Group

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

i) Forward currency contracts – held for trading

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

	AS AT 31/12/17	AS AT 30/06/17
	NZD \$000	NZD \$000
Buy AUD/Sell NZD - Maturity 0-12 months	58,555	53,636
Buy AUD/Sell NZD - Maturity 13-24 months	22,506	26,829
Buy AUD/Sell NZD - Maturity 25-36 months	4,407	7,406

Notes to the Consolidated Financial Statements

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017 (UNAUDITED)

8. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

ii) Forward currency contracts – fair value hedge

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

	AS AT 31/12/17	AS AT 30/06/17
	NZD \$000	NZD \$000
Buy AUD/Sell NZD - Maturity 0-12 months	703	1,937
Buy GBP/Sell NZD - Maturity 0-12 months	430	0

iii) Foreign currency embedded derivative contracts

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

	AS AT 31/12/17	AS AT 30/06/17
	NZD \$000	NZD \$000
Sell AUD/Buy NZD - Maturity 0-12 months	9,277	11,114
Sell AUD/Buy NZD - Maturity 13-24 months	0	141

Fair value

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

Notes to the Consolidated Financial Statements

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017 (UNAUDITED)

9. COMMITMENTS

	AS AT 31/12/17	AS AT 31/12/16	AS AT 30/06/17
	\$000	\$000	\$000
Programme rights	216,842	301,035	244,598
Operating leases	2,154	3,515	2,781
Property, plant and equipment and software	1,006	2,752	1,056
	220,002	307,302	248,435

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

10. CONTINGENT LIABILITIES

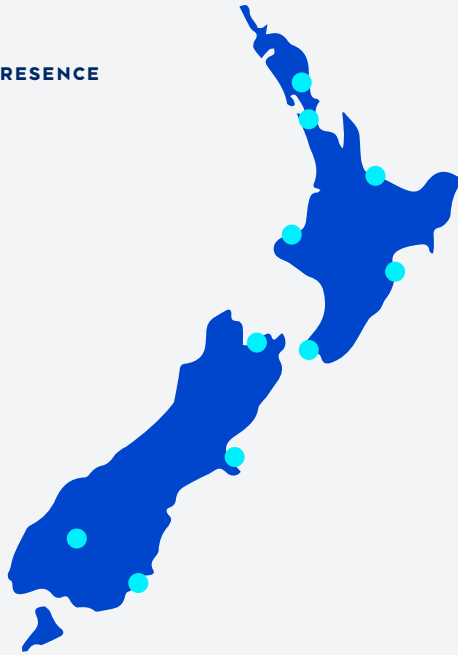
In the normal course of business various legal claims have been made against Television New Zealand Limited. Given the absence of formal proceedings and uncertainty as to the outcomes of these claims, no estimate of the financial effect can be made and no provision for any potential liability has been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

11. EVENTS AFTER THE BALANCE SHEET DATE

On 26 February 2018 the Board of Directors declared a final dividend FY2017 of \$9,016,000, 6.44 cents per share, (2016 – \$13,370,000, 9.55 cents per share) to be paid in March 2018.

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

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Jonathan Symons, Marketing Director



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