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30 June 2007

Hon Steve Maharey
Minister of Broadcasting
Hon Dr Michael Cullen
Minister of Finance

Parliament Buildings
WELLINGTON

Dear Ministers

The media industry in New Zealand and overseas is undergoing profound change. Rapidly changing technologies have resulted in audiences being presented with more choices to obtain their news, information and entertainment than ever thought possible.

This audience fragmentation is rapidly impacting New Zealand. TVNZ has responded to this with a new five year strategic plan, “Inspiring New Zealanders on every screen”. This strategy is fundamentally about embracing change, and determining what TVNZ’s competitive strengths are and focussing on delivering to them.

The second half of FY2007 has been a difficult one for the company as it begins the transition from its old strategy to this new one. But it is a transition that the Board and management of TVNZ are determined to see through because we believe that it will deliver long term commercial and public value to New Zealanders.

The next three years hold great promise for TVNZ as it turns the business around, sees the two new digital channels go to air on the new Freeview platform and continues to fund, alongside New Zealand On Air and Te Mangai Paho, more New Zealand programmes than any other media organisation.

As the country’s largest New Zealand-owned major media company, the Board, management and staff of TVNZ are committed to the role we play in preserving and building national identity in an increasingly globalised world.

Yours sincerely

Sir John Anderson     Rob Fenwick
Chairman      Deputy Chairman
1 Introduction

Television New Zealand Limited (TVNZ) develops a Statement of Intent (SOI) each year to provide New Zealanders with information so they can have a better understanding about their public television broadcaster.

Under the Crown Entities Act 2004, TVNZ is required to provide a broad range of financial and non-financial information and desired outcomes for the coming three years and how they will be measured. These measures allow for public scrutiny but at the same time commercial confidentiality.

2 Who we are and what we do

TVNZ and its predecessors have been in existence since 1960. During that time they have delivered public value and commercial value.

TVNZ is a Crown entity company under the Crown Entities Act 2004. TVNZ is New Zealand’s largest free-to-air broadcaster. It is the nation’s television public broadcaster operating under a Charter incorporated into the Television New Zealand Act 2003.

As a Crown entity incorporated under the Companies Act 1993 it has a Board of Directors appointed by the company’s shareholding Ministers – the Minister of Broadcasting and the Minister of Finance. Day to day management of the company is delegated to the Chief Executive Officer.

TVNZ’s editorial independence is enshrined in legislation (Television New Zealand Act 2003) and freedom from political influence is a fundamental principle. TVNZ’s governance, accountability and compliance arrangements are covered by the:

- Television New Zealand Act 2003, including the Charter for TVNZ;
- Companies Act 1993;
- Crown Entities Act 2004;
- Owner’s Expectations Manual as published by the Crown Company Monitoring Advisory Unit in conjunction with the Treasury;
- Business Planning ‘Outlook Letter’ sent to TVNZ in advance of July 1 start to the financial year;
- Memoranda of Understanding between TVNZ and the Minister of Broadcasting for direct Government funding;
- Compliance with the current free to air Code of Broadcasting Practice regulated by the Broadcasting Standards Authority; and
- Compliance with advertising codes promulgated through the Advertising Standards Authority.
The agreed scope of functions and intended operations of TVNZ are:

- The commissioning, production, purchasing and archiving of audiovisual material, either independently or with others;
- The provision of television production facilities (field, studio and post production), outside broadcast facilities, design and set construction services;
- The programming and scheduling of television channels and related marketing activities;
- The provision of multimedia content, advertising and sponsorship services and related marketing activities;
- The broadcasting and narrowcasting of television channels, programmes and signals on all available platforms and devices;
- The provision of online services and development of content for the television, internet and communications industry;
- The provision of services to the broadcast industry, both domestically and internationally; and
- The provision of audiovisual footage, programming, video and DVD rights, programme listing information, channel packaging and all other content related services and materials.

The TVNZ Charter provides the organisation with unique status and responsibilities, and a set of expectations as New Zealand’s television public broadcaster. It applies across the full range of TVNZ’s activities and it has been integrated into decision-making throughout the business.

For example, all local programming commissions are assessed against Charter considerations as well as commercial criteria. Programming which delivers on the expectations of the Charter is not solely local content; TVNZ is specifically charged with broadcasting ‘the best’ from around the world.

Some direct funding is provided by the Government to assist TVNZ to give effect to the Charter. The use of direct Government funding is reported on twice yearly in the interim and annual reports and published every quarter.
In December 2006 TVNZ released its new five year strategic plan, “Inspiring New Zealanders on every screen”.

TVNZ’s mission is to be “valued by all New Zealanders as their public broadcaster”. To get there the company needs to pursue two goals – to become the New Zealand content leader and to be the partner of choice for other content platforms. But all of this requires TVNZ to transform its business; it needs to have the right structures, people and culture.

While TV ONE and TV2 will remain TVNZ’s core business over the next three years, changing international and local audience use of media and changes in technology means New Zealanders are increasingly wanting their news, information and entertainment when and where it suits them.

The traditional business of television is changing and TVNZ wants to embrace the reality of the changing media landscape. Not only will TVNZ have to have an organisation that is capable of delivering on its strategy, it will have to change the way it thinks about the business of content. With some content we will be rivals with other parties and at other times, their partners.

This future opens up more opportunities for New Zealanders to produce and see more New Zealand news, information and entertainment; to increase TVNZ’s public value and help build national identity. This future also creates more opportunities for advertisers to reach their customers and, through this, to increase TVNZ’s commercial value.
TVNZ's new five year strategic plan, “Inspiring New Zealanders on every screen”. 
3 The operating environment

To achieve these goals TVNZ must first address five factors:

3.1. Advertising revenues

The advertising revenue environment is forecast to be difficult for the next three years. Advertising revenues are broadly a function of market conditions, competition for media spend and TVNZ channel performance. The performance of TV ONE has been progressively slipping for a number of years and this downturn was masked by strong revenue growth in the 2002-2005 period. TVNZ management’s immediate focus is on protecting its core channels by turning around TV ONE (including News) and sustaining the performance of TV2. As well as programming initiatives, this will require investments in brand marketing. Turning around the channel performance will be critical to arresting the decline in advertising revenues.

3.2. Legacy cost structures

Between 2002 and 2005 TVNZ’s revenues were at record highs. Unfortunately, cost structures also increased during this period. With the recent downturn in revenues TVNZ is lowering its cost structures to a more sustainable level.

Much of this work was undertaken in FY2007 by an internal staff Organisational Design team focused on getting the right people in the right roles, driven by the right values. An outcome of this project was the disestablishment of more than 140 positions. The aim was to have most, if not all of these transformation costs fall into FY2007.

3.3. An increasingly competitive market for acquisition of programming

TVNZ’s two main competitors for programming – CanWest and Sky TV – are foreign owned companies with large cash reserves and the ability to call on broader commercial relationships with offshore content suppliers. This situation continues to drive up the cost of international output deals and put out of reach culturally and commercially valuable content such as high profile sport.

Partially offsetting this increasing competitiveness has been TVNZ’s strategy to establish preferred partnerships with content suppliers who see the company bringing more than traditional single channel exposure for programmes in the New Zealand market. TVNZ, with its new digital channels and expanding online presence, is providing significantly greater value and exposure for suppliers. These new services provide TVNZ with greater leverage in acquisition and commissioning discussions.
On the local programming front, TVNZ’s ability to invest in New Zealand content is driven by the commercial success of the company. In FY2007 about $50 million of TVNZ’s commercially earned revenue was invested into non-sports and non-news and current affairs productions. In the recent past this was as high as $80 million per annum and in the outer financial years it may be as low as $40 million.

Going forward TVNZ would like to “unlock” its archive collection at its facility at Avalon. There are about 500,000 individual programmes at the TVNZ Archive that are of immense commercial and public value. Access to them, however, isn’t possible because of current copyright laws.

3.4. Capital investment requirements to establish a multi-channel, multi-platform operating infrastructure

To operate in the new era where audiences can access their content anytime and anywhere requires TVNZ to have the right operating infrastructure. A single playout facility that will enable TVNZ to ingest content once and then play it out via a number of different media platforms is a multi-million dollar investment.

Such infrastructural investment has been factored into the company’s financial forecasts.

3.5. Securing and retaining key personnel

As in other parts of the economy, the competition for skilled and talented staff in some areas of the business is significant. To deliver on the new strategy TVNZ will, in particular, require high quality and high performing employees with proven records in sales, information technology and the online environment. In turn, this will put cost pressures on the company.

4 What we plan to do: operations and activities

TVNZ will focus on five significant business area activities in FY2008. These are:

- Channel turnaround;
- Public value enhancement;
- Emerging business opportunities;
- Organisational design; and
- Digital infrastructure, channels and services.
4.1 Channel turnaround

ONE News turnaround
A critical component of the TV ONE brand is ONE News which has been losing ground, especially in the Auckland market and in the 18-54 demographic. Strategies for rebuilding ONE News audiences will be implemented.

Sustaining TV2’s performance
TV2, as the complementary part of the TVNZ brand, performed spectacularly well in FY2007 by screening a number of local and international hit shows. The emphasis for TV2 during FY2008 will be on sustaining and growing this performance all year round.

Brand transformation
A multi-channel, multi-platform family of brands will be created under the TVNZ umbrella. In a fragmenting media environment, consumers will migrate to brands that they understand and trust. The repositioning of TVNZ and all sub-brands will aim to enhance the public perception and value of TVNZ and enable New Zealanders to have a direct and consistent relationship with their public broadcaster.

4.2 Public value enhancement

New public measures
TVNZ has developed a new Charter Performance Measurement framework in conjunction with government officials. This new framework measures TVNZ’s delivery against the Charter. It is incorporated into the TVNZ SOI and will be implemented in FY2008.

Enhance stakeholder relationships
TVNZ and its predecessors have been in existence since 1960. They have created enormous public and commercial value for New Zealanders and, through this, a strong connection with the country. In recent years TVNZ has strained its relationship with a number of these stakeholders. In FY2008 TVNZ will continue to rebuild these relationships through actively engaging stakeholders.

Charter review process
The TVNZ Act 2003 requires the House of Representatives to review the TVNZ Charter within five years of its implementation. TVNZ will contribute to the review of its Charter during FY2008.
Cultural change programme
In the second half of FY2007 TVNZ completed an organisational design process to ensure it had the right structures for the business to implement its new five-year strategic plan. The next part of this organisational redesign is to develop a culture so that the right people in the right structures in the business can implement the strategic plan. During FY2008 Corporate Affairs and Human Resources will develop a cultural change programme for the organisation.

Extend TVNZ channels/content into the Pacific
New Zealand is a Pacific nation with a multi-cultural society. TVNZ has had a long history of Pacific programming. TVNZ believes that with the launch of the new digital channels there is an opportunity to extend this programming and other New Zealand content into the wider Pacific region. TVNZ will engage with the Government to explore opportunities to further enhance the current Government-supported service into the Pacific.

4.3 Emerging business opportunities

Securing content and managing rights
In the new digital media value chain TVNZ’s focus will be to provide, aggregate, package and distribute content better than any other company in New Zealand. This depends primarily on TVNZ’s ability to negotiate and secure multi-platform rights.

TVNZ’s new rights strategy will see it consult with internal and external partners to identify key issues and understand best practices for rights management. TVNZ will then implement a new rights management structure and outline a new rights position for the business that can achieve optimal value for producers and for New Zealand.

Further development of digital opportunities
Digitext is the Teletext equivalent for the digital channels. It is a far superior experience for the viewer and it can support live video wrapped with textual information. This will add a compelling component to the user experience for Freeview uptake, and is also a compelling platform for the delivery of high-value advertising.

TVNZ ondemand extension
TVNZ has already launched a robust delivery platform for streaming and downloaded video. User feedback has been exceptional. TVNZ ondemand phase 2 will continue the commercialisation of the video content on the platform by:
• Targeting ex-pat Kiwis for pay-per-view content;
• Implementing a smart ad-serving engine that increases advertising revenue;
• Implementing a smart Electronic Programme Guide (EPG) that suggests new shows to users on the platform and for on-air viewing; and
• Building community activities that make the site more ‘sticky’ and link to www.tvnz.co.nz

Unlocking the Archives
The TVNZ Archive is a cultural institution. The collection includes the productions of the National Film Unit and contains images from the beginning of the 20th Century to the present. The Archive at Avalon demonstrates most effectively TVNZ’s mandate as a public broadcaster. TVNZ supports the goal of improving public access to archival material. There are, however, significant rights issues to resolve first. In FY2008 TVNZ will investigate ways to unlock the Archive.

Developing business partnerships
TVNZ is working cooperatively with selected partners to establish long-term, shared commitments and value. This initiative recognises that all broadcasters, whether they are traditional rivals or new entrants, face the problems of proliferating content and channels and are looking to diversify revenue streams in order to stem the negative effects of audience fragmentation. TVNZ will investigate further opportunities for developing business partnerships.

4.4 Organisational design

Organisational design implementation
The key part of the organisational design process that TVNZ went through in FY2007 was getting the right structures for the business to implement the new five year strategy. The second part of the process, to be implemented in FY2008, is to create the right culture. This will involve creating induction programmes on delivering to the strategy and its key objectives and milestones, and development measurements for all employees so they know how they are progressing against delivering on the strategy. A talent management programme will also be created to attract, retain and develop key employees.

4.5 Digital infrastructure, channels and services

Launch of digital channels
TVNZ has led and embraced New Zealand’s digital future by playing a leading role in the launch of Freeview, a shared industry free-to-air digital platform.
Two new advertising-free digital channels will be launched in FY2008 that will sit on the Freeview platform. The target launch date for the channel with children, family and cultural content is September 2007. The target launch date for the factual channel is March 2008.

Establishing Freeview platform
The delivery of key technology to support Freeview’s satellite and DTT platform launches will be undertaken in FY2008. Key activities include:

- provision of an upgraded DTH Headend including Divitech SI management system;
- DTT EPG development;
- DTT STB certification testing; and
- DTT Headend implementation

Digital channel infrastructure
A multi-channel, multi-platform infrastructure is a pre-requisite of the new digital channels. Significant infrastructure in FY2008 include playout facilities, a 24-hour News studio and system upgrades to handle the additional channels’ equipment.

5 Capability

A key part of TVNZ’s new five year strategic plan “Inspiring New Zealanders on every screen” is having people with the right skills operating in a culture of high standards and performance.

The first stage of the company’s Organisational Design project, which occurred in the second half of FY2007, was getting the right structure and employing the right people to fill those roles. The final stages of the Organisational Design project will be completed in the first quarter of FY2008. The remainder of the financial year will see the beginning of business and cultural transformation.

To ensure that TVNZ has the right capabilities a number of initiatives will be implemented in FY2008. These include:

- Reviewing management programmes in place for the past nine years;
- Improving induction programmes;
- Continuing with change agility training to ensure all employees have the opportunity to develop skills to thrive in a changing environment;
- The creation of on-line personal development training programmes; and
- Continuing with craft development initiatives.
6  Good employer

TVNZ employed 1,057 FTEs in its Auckland, Hamilton, Wellington, Christchurch, Dunedin, Sydney and London offices as at May 2007. There is a joint Collective Agreement with the PSA and the EPMU at TVNZ, with just under 27 percent of employees members of it.

TVNZ operates as a good employer as defined in section 118 of the Crown Entities Act 2004. Additionally, TVNZ undertakes to:

- Manage change with transparency, respect and support for individuals in order to meet the changing needs of the company;
- Ensure its recruitment process enables the impartial selection of suitable candidates;
- Remunerate fairly and consistently in relation to performance, position in salary bands and to the external market;
- In collective bargaining, achieve mutually satisfactory outcomes through good faith negotiation;
- Ensure a healthy and safe working environment;
- Provide appropriate learning and development opportunities;
- Recognise the needs and aspirations of Maori employees;
- Demonstrate equal opportunity practices which firmly discourage discrimination; and
- Operate a performance management system that allows employees full participation in their own performance reviews.

7  Corporate Social Responsibility

Community

TVNZ is a proud New Zealand company and takes its position in the community seriously. As such, TVNZ and its channels sponsor and support a number of community organisations and initiatives. The largest sponsorship is through TVNZ’s Community Support Foundation which selects community organisations and initiatives based on meeting particular criteria. This framework is:

- Who we are – which is about national identity and citizenship;
- How we live – which is about New Zealand lifestyles; and
- Where we live – which is about New Zealand’s natural environment.
For the next three years, TVNZ has selected the Heart Foundation, the SPCA, the Refugees and Migrant Service and Surf Life Saving New Zealand. This sponsorship will involve providing free air time to the value of $50,000 a month to each organisation. TVNZ staff will also be involved in a number of initiatives with each organisation.

The New Zealand Symphony Orchestra, the cultural fashion extravaganza Westfield Style Pasifika, the EFFIE Awards for the advertising industry, the Farmers Santa Parade, New Zealand’s biggest annual children’s festival Kidsfest, the Screen Producers and Directors Association of New Zealand conference and the Christchurch Arts Festival will be sponsored or supported in cash or kind by TVNZ, TV ONE or TV2.

Additionally, in September, TVNZ will support Book Month, an initiative that promotes the New Zealand publishing industry and writers.

**Environment**

TVNZ has aimed in recent years to introduce policies to minimise the environmental impacts of its activities. These include:

1. **Waste Recycling**
   - TVNZ’s recycling programme ZERO WASTE has been in place throughout the company for five years. The programme is actively supported by management and staff;
   - TVNZ recycles paper, cardboard, glass, cans, toner cartridges, cable, computer equipment. Used video tapes are cleaned and donated to schools throughout New Zealand; and
   - TVNZ has a policy of requesting equipment suppliers to remove and recycle packaging received with new equipment.

2. **Electricity Usage**
   In 2002 the TVNZ Avalon site received a National Award for its energy conservation efforts. TVNZ monitors electricity usage at all of its sites.

3. **Non Renewable Energy Sources**
   Where possible, TVNZ eliminates the use of energy from non-renewable sources. The only remaining use is natural gas at the TVNZ Television Archive in Lower Hutt. TVNZ also monitors vehicle fuel consumption to ensure its vehicle fleet is fuel efficient.
4. NZBCSD
Senior management have taken part in the workshop programmes run by the New Zealand Business Council for Sustainable Development. The TVNZ Sustainability Programme has been presented as a case study in the workshop programme.

5. Benchmarking
TVNZ participates in the annual survey of Corporate Environmental Responsiveness conducted by the Massey University Centre for Business and Sustainable Development. TVNZ compares favourably against other major New Zealand corporates.

6. Greening the Screen
TVNZ assisted by supplying material and technical information for the Environment Ministry’s publication ‘Greening the Screen’ and was supportive of Shortland Street becoming carbon neutral. Recently TVNZ has held discussions with Landcare Research about making the organisation carbon neutral.

8 Measuring TVNZ’s performance as a public broadcaster

A TVNZ Charter Performance Measurement framework was recently developed to help give greater transparency to the organisation’s delivery on the Charter (see APPENDIX I). This framework was developed in consultation with Government officials.

The Television New Zealand Act 2003 requires the Charter to be applied to all those parts of TVNZ’s operations that contribute to its broadcasting content. This is to be predominantly fulfilled through free-to-air broadcasting through its channels TV ONE and TV2, but eventually through other services such as TVNZ ondemand, the tvnz.co.nz website and via the two new non-commercial digital channels on the Freeview platform.

The purpose of the Charter is focused primarily on providing programmes that will achieve public service broadcasting outcomes. As such, the approach taken has seen the Charter sections 12 (2) (a) and (b) being summarised into seven broad themes for measurement – an informed society, national identity/citizenship, Maori, diversity, high standards, innovation and New Zealand talent. The approach has involved giving each of these themes an objective and cross referencing them to the Charter and TVNZ’s strategic objectives.

The measures in this framework are a combination of reach, output, impact and quality.
Reach is a measure of usage. For the framework cumulative audience (5+) of both TVNZ channels across a specified time frame will be used. Where applicable, the number of people downloading TVNZ content online and unique visitors to its website will be used. Mass-market programme appeal is also a measure of reach used in this framework.

Output is defined in the framework as the number of hours of content delivered across TVNZ services.

Impact is a measure of external effects such as awards and industry/peer recognition of achievement and the organisation’s corporate social responsibility.

As a way of gauging quality, a uniquely developed “Appreciation/Importance Index” has been introduced. This index is based on qualitative and quantitative audience research and asks respondents to rank programmes from a viewer’s point of view and that of a New Zealand citizen. While someone may, as a viewer, not like a particular programme they may, as a New Zealand citizen, appreciate that TVNZ shows such programmes. This index captures, as never before, the commercial value and the public value of TVNZ programmes. This index demonstrates the unique role TVNZ plays in the New Zealand broadcasting environment.

Also, quality is measured through empirical data such as outlining the number of upheld BSA/ASA complaints.

9 Financial performance

Being a commercially successful business is critical to TVNZ’s success as a public broadcaster.

The recent reduced performance of the business, however, means that turning around the organisation is a medium term, rather than short term, proposition.

It is easier to destroy commercial value in broadcasting than create it, so the turnaround in performance in the next three years requires enormous effort.
Reporting of TVNZ’s performance will be included in the Annual Report.

10 Dividends and capital structure

Funds surplus to TVNZ’s investment and operating requirements will be distributed each year to the company’s Shareholders. This will occur once in the financial year, on 30 September or the closest business day to this date.

As usual, the dividend is subject to annual review by TVNZ’s Directors and will take into account:

- Solvency requirements of the Companies Act 1993;
- Working capital requirements and the medium term capital investment programme;
- Funds required for investment in new business activities; and
- A sustainable financial structure having regard to the risks from predicted short and medium term changes to the forecast operating environment including economic conditions, competition, changing consumer behaviour and technology developments.

For FY2008 the expected dividend is 70 % of net profit after tax.

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<th>Measurement</th>
<th>FY2008 Target</th>
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<tr>
<td><strong>Profitability</strong></td>
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<tr>
<td>Return on average equity (%)</td>
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<tr>
<td>EBITDA/Core television revenue</td>
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<tr>
<td><strong>Gearing</strong></td>
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<td>Net interest-bearing debt/net interest-bearing debt plus equity</td>
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<tr>
<td><strong>Financial Stability</strong></td>
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<tr>
<td>Total equity/total assets</td>
<td>More than 50%</td>
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<tr>
<td><strong>Interest Cover</strong></td>
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</tr>
<tr>
<td>EBITDA/Interest expense</td>
<td>More than 4 times</td>
</tr>
</tbody>
</table>
11 Reporting and consultation

TVNZ’s statutory reporting and consultation requirements are set out in Appendices IV and V.

As with the “no surprises” policy operated by other Crown entities, TVNZ will communicate with shareholding Ministers in advance of issues that are controversial or likely to be of wider public interest.

This approach, of course, takes into account TVNZ’s editorial independence provisions under the Television New Zealand Act 2003 which guarantees that News and Current Affairs, programming and complaints are dealt with free from any political direction.

12 Statement of forecast service performance

Due to the nature of the television business, where funding may be applied on a programme by programme basis, there will be times when TVNZ is not able to identify the funding revenue it will receive or output projections in advance.

Because of this, TVNZ continues to be granted by the Minister of Finance an exemption under section 143 of the Crown Entities Act from including in its Statement of Forecast Service Performance outputs which are not directly funded (in whole or in part) by the Crown.

The TVNZ Annual Report, however, will continue to have a comprehensive list of all Crown-funded outputs. These will include:

a) Direct government funding from the Ministry for Culture and Heritage to assist TVNZ implement the Charter;
b) Programme funding from New Zealand On Air;
c) Programme funding from Te Mangai Paho;
d) Funding for programme captioning from New Zealand On Air;
e) Transmitting TVNZ programmes to Pacific nations with funding from the Ministry for Culture and Heritage;
f) Maintaining non-commercial transmission coverage with funding through the Ministry for Culture and Heritage; and

g) Funding for TVNZ’s two new digital channels for the Freeview platform.
a) Direct government funding from the Ministry for Culture and Heritage to assist TVNZ implement the Charter

The Government has provided TVNZ with direct funding through Vote Arts, Culture and Heritage. This funding is for programmes and initiatives that TVNZ would not have committed funding to in a wholly commercial environment.

The expected level of direct funding to be received for FY2008 is $15.1 million (excluding GST). TVNZ forecasts that it will commit $15.1 million to programming and other initiatives as agreed in a Memorandum of Understanding with the Minister of Broadcasting.

TVNZ will report on the funding that has been received as follows:

i) a reconciliation of funding received during the year of broadcast;
ii) within each genre, programming funded by title;
iii) by month of broadcast by programme;
iv) hours broadcast by programme;
v) level of funding allocated (which equates to expenses incurred by programme);
vi) which funding year applies by programme; and
vii) number of viewers (5+) by programme.

b) Programme funding from New Zealand On Air

On a specific programme-by-programme basis, funding is received from NZ On Air. As NZ On Air operates on a programme by programme funding application basis, TVNZ cannot specify the level of revenue anticipated in the coming year.

TVNZ will report on each programme that has received NZ On Air funding, (excluding NZ On Air funding provided directly to independent production companies) as follows:

(i) by programme title;
(ii) by month of broadcast;
(iii) hours broadcast by programme;
(iv) level of funding received by programme; and
(v) number of viewers (5+) by programme.

The forecast standards of output for each programme for which funding has been received from NZ On Air will be that the production has been completed in accordance with the proposal for the production and the production specifications.
c) Programme funding from Te Mangai Paho

Te Mangai Paho funds TVNZ for the production and broadcast of certain programmes. The use of Te Mangai Paho funding is for payment of costs and expenses identified in the various programme budgets.

The expected revenue for FY2008 is $5.6 million (excluding GST) and projected expenses equate to the revenue earned. TVNZ will report on each programme that has received Te Mangai Paho funding by:

(i) programme title;
(ii) month of broadcast;
(iii) hours broadcast by programme;
(iv) level of funding received by programme; and
(v) number of viewers (5+) by programme.

The forecast standard of output by TVNZ for each programme which has utilised funding provided by Te Mangai Paho will be that TVNZ has produced and delivered each such programme in accordance with the contractual conditions agreed with Te Mangai Paho.

d) Funding for programme captioning from New Zealand On Air

NZ On Air funds TVNZ for the purpose of providing a captioning service on TV ONE, TV2 and TV3. The captioning funding is used to provide continuous prime time coverage (with any failure rate not to exceed a weekly rate of 10% of non-captioned hours) with at least four children’s programmes captioned per week.

Daily news bulletins and current affairs shows Midday, 6.00pm ONE News, Close Up and Tonight are also captioned. An English language subtitling service will be provided for the Maori language news programme Te Karere.

The expected revenue for the service is $1.91 million (excluding GST) with projected expenses to be incurred of the same level.

The forecast standard of output by TVNZ will be compliance with the Terms of its contract with NZ On Air relating to the funding of programme captioning.

e) Transmitting TVNZ programmes to Pacific nations with funding from the Ministry for Culture and Heritage

The transmission funding received by TVNZ is to enable it to distribute programmes by satellite to Pacific nations. The projected revenue is $0.6 million (excluding GST) with projected expenses to be incurred of the same amount.
TVNZ will provide a minimum of 11 hours transmission of TVNZ programming to Pacific nations weekly, such programming to include:

- The daily transmission of ONE News;
- The week-day transmission of Close Up;
- The weekly transmission of Tagata Pasifika; and
- The transmission of other programmes relevant to Pacific nations.

TVNZ will report the:

(i) List of programmes transmitted;
(ii) Total hours transmitted;
(iii) Actual costs of distribution; and
(iv) Costs of repair or replacement of Pacific nations’ satellite transmission reception equipment damaged by natural elements (if any contribution is made).

The performance standard for this output will be an acknowledgment by each Pacific nation to which the programmes are delivered that over 90% of the programmes were received and broadcast.

f) Maintaining non-commercial transmission coverage with funding through the Ministry for Culture and Heritage

The funding provided is to assist in the transmission coverage of the TV ONE and TV2 signals being maintained to those New Zealand communities that would not otherwise receive a commercially viable terrestrial signal. The contracted funding to 30 June 2008 is $1.15 million (excluding GST).

TVNZ undertakes to meet certain performance standards including the quality of the signal, maintenance of the equipment, and responses to faults and to provide performance reports at six-monthly intervals. TVNZ contracts transmission company Kordia to provide services to discharge these obligations.

The performance standards for this output will be compliant with the covenants contained in the Memorandum of Understanding between the Minister of Broadcasting and TVNZ.

g) Funding for TVNZ’s two new digital channels for the Freeview platform

The total cost of these two channels in their first five years of operation is projected to be about $112 million, of which $79 million is shareholder funding.
The new channels have four key objectives:

- Extend public broadcasting delivery beyond that currently provided by TV ONE and TV2;
- Increase accessibility to public broadcasting content by scheduling more of it in prime viewing time;
- Strengthen New Zealanders’ sense of national identity by commissioning and producing an increased level of original local content; and
- Encourage households to switch from analogue to digital reception by promoting the new TVNZ channels on the Freeview Platform.

TVNZ will regularly report on the expenditure of Government funds in line with the Memorandum of Understanding it is developing with the Minister of Broadcasting.
## APPENDIX I

### TVNZ Charter Performance Measures Framework

<table>
<thead>
<tr>
<th>Theme</th>
<th>Objective</th>
<th>Charter sub sections included</th>
<th>TVNZ’s 5 year strategic plan – the strategic priorities below will advance the Charter objectives and outcomes.</th>
<th>Measures</th>
</tr>
</thead>
</table>
| An Informed Society    | To provide impartial and comprehensive information and national and international programming that is essential to having an informed and educated society | (a) i, (a)ii, (b)i, (b)ii, (b)xiv | Valued As Their Public Broadcaster By All New Zealanders: Achieve FTA leadership in all local content genres; Deliver the programmes and content that New Zealanders want and expect.  
The Content Leader: Reach the maximum target audience(s) on viable platforms.          | Reach:  
Reach of identified national and international programmes across all TVNZ services  
for “programming of an educational nature that support learning and the personal development of New Zealanders”  
- Reach measures are:  
Cumulative audience (5+) across identified series/programmes  
Number of people downloading the identified programmes from TVNZ ondemand/Podcasting over a fiscal year  
Unique visitors to tvnz.co.nz for content supporting the identified programmes over a fiscal year  
Number of identified programmes within the yearly Top Programmes list across 5+ and 18-39  

Output:  
Number of hours and hours of captioning of identified national and international programmes across all TVNZ services  
for “programming of an educational nature that support learning and the personal development of New Zealanders” |
| National Identity/ Citizenship | To provide entertaining and informative programming that reflects the diverse range of cultures and interests that contribute to an overall sense of who we are as New Zealanders | (a)iii, (b)iii, (b)iv, (b)v, (b) vii, (b)viii, (b)ix; (b) xiii | Valued As Their Public Broadcaster By All New Zealanders: Be a valued contributor to New Zealand’s future by promoting national identity.  
*The Content Leader:* Promote our national identity and national interests. Reach the maximum target |
|---|---|---|---|
| Reach: | Reach of identified national and international programmes across all TVNZ services  
- applies to programming that “promotes understanding of the diversity of cultures making up the NZ population”,  
“programming that reflects the regions to the nation as a whole”;  
“programming about NZ’s history and heritage, and natural environment”,  
“programmes that serve the interests and informational needs of Maori audiences, including programmes promoting the Maori language, and |
audience(s) on viable platforms

programmes addressing Maori history, culture and current issues”,
“programming that reflects the role that sporting and other leisure interests play in NZ life and culture”
“programming intended for mass audience material dealing with minority interests”

Reach measures are:
Cumulative audience (5+) across identified series/programmes
Number of people downloading the identified programmes from TVNZ ondemand/Podcasting over a fiscal year
Unique visitors to tvnz.co.nz for content supporting the identified programmes over a fiscal year

Number of identified programmes within the yearly Top Programmes list across 5+ and 18-39

Output:
Number of local hours
Hours of captioning for local programming

Number of hours and hours of captioning of identified national and international programmes across all TVNZ services
- applies to programming that “promote understanding of the diversity of cultures making up the NZ population”,
“programming that reflects the regions to the nation as a whole”;
“programming about NZ’s history and heritage, and natural environment”,
“programmes that serve the interests and informational needs of Maori audiences, including programmes promoting the Maori language, and
<table>
<thead>
<tr>
<th>Maori</th>
<th>To provide entertaining and informative programming that reflects Maori interests, culture, and language and to convey these interests to a wider NZ audience.</th>
</tr>
</thead>
</table>
|       | *(a)iv, (b)iii, (b) viii* | Valued As Their Public Broadcaster By All New Zealanders: Deliver the programmes and content that New Zealanders want and expect.  
*The Preferred Partner:* Create profitable and productive Partnerships |
|       | | These measures relate to programming that:  
“serve the interests and informational needs of Maori audiences, including programmes promoting the Maori language, and programmes addressing Maori history, culture and current issues”, |
|       | | **Reach:**  
Cumulative audience (5+) and (Non-Maori 5+) across identified series/programmes |

programmes addressing Maori history, culture and current issues”,

“programming that reflect the role that sporting and other leisure interest play in NZ life and culture”

“programming intended for mass audience material dealing with minority interests”

**Quality:**
Appreciation Index as above

**Impact:**
Qualitative/Quantitative measures on “Place I’d turn to see coverage of events of national importance”

PIBB (Community Support Foundation, other sponsorships, School usage, etc)

Example Based Evidence – evidence of how content delivered by TVNZ has had a positive impact on society, culture or citizen activity. (recommended to only undertake this measure if collecting this information isn’t cost prohibitive)
<table>
<thead>
<tr>
<th>Diversity</th>
<th>with the right Broadcasters and Deliverers.</th>
</tr>
</thead>
<tbody>
<tr>
<td>To provide entertaining national and international programmes that service the interests and needs of different audiences, including cultures, lifestyles, age and regions, and particularly those that may not be provided for in a purely commercial</td>
<td></td>
</tr>
<tr>
<td></td>
<td>The Content Leader: Achieve FTA leadership in all local content genres; Drive local content creativity and innovation; Promote our national identity. Reach the maximum target audience(s) on viable platforms</td>
</tr>
<tr>
<td></td>
<td>Number of identified programmes within the yearly Top Programmes list across 5+ and 18-39</td>
</tr>
<tr>
<td></td>
<td>Output: Number of hours of Maori programming across all TVNZ services</td>
</tr>
<tr>
<td></td>
<td>Quality: Appreciation Index as above</td>
</tr>
<tr>
<td></td>
<td>Impact: PIBB – sponsorship, School Support/Usage/scholarships etc</td>
</tr>
<tr>
<td><strong>Diversity</strong></td>
<td>Valued As Their Public Broadcaster By All New Zealanders: Deliver the programmes and content that New Zealanders want and expect; Strengthen our relationships with viewers, partners and other stakeholders.</td>
</tr>
<tr>
<td></td>
<td>(a) i, (a) v, (a) vi, (a) vii, (a) viii, (a) ix, (a) x, (b) xii, (b) xiii, (b) xiv</td>
</tr>
<tr>
<td></td>
<td><strong>Reach:</strong> Reach of identified national and international programmes across all TVNZ services</td>
</tr>
<tr>
<td></td>
<td>- applies to programming:</td>
</tr>
<tr>
<td></td>
<td>“that promote understanding of the diversity of cultures making up the NZ population”</td>
</tr>
<tr>
<td></td>
<td>“that reflects the regions to the nation as a whole”;</td>
</tr>
<tr>
<td></td>
<td>“about NZ’s history and heritage, and natural environment”,</td>
</tr>
</tbody>
</table>
broadcasting environment

all local content genres; Extend public broadcasting delivery by launching new digital channels. Reach the maximum target audience(s) on viable platforms

“that reflect the role that sporting and other leisure interest play in NZ life and culture”

“intended for mass audience material dealing with minority interests”

“featuring NZ films, drama, comedy and documentary programmes”

“that encourage and support the arts, including programmes featuring NZ and international artists and arts companies”

“of an educational nature that support learning and the personal development of New Zealanders”

“NZ and international programmes that provide for informational, entertainment and educational needs of children and young people and allow for the participation of children and young people”

Reach measures are:
Cumulative audience (5+) across identified series/programmes
Number of people downloading the identified programmes from TVNZ ondemand/Podcasting over a fiscal year
Unique visitors to tvnz.co.nz for content supporting the identified programmes over a fiscal year

Number of identified programmes within the yearly Top Programmes list across 5+ and 18-39

Output:
Number of hours and hours of captioning of identified national and international programmes across all TVNZ services
- applies to programming:
“that promote understanding of the diversity of cultures making up the NZ population”;

“that reflects the regions to the nation as a whole”; 

“about NZ’s history and heritage, and natural environment”,

“that reflect the role that sporting and other leisure interest play in NZ life and culture”

“intended for mass audience material dealing with minority interests”

“featuring NZ films, drama, comedy and documentary programmes”

“that encourage and support the arts, including programmes featuring NZ and international artists and arts companies”

“of an educational nature that support learning and the personal development of New Zealanders”

“NZ and international programmes that provide for informational, entertainment and educational needs of children and young people and allow for the participation of children and young people”

**Quality:**

Appreciation Index as above

**Impact:**

PIBB – sponsorship, School Support/Usage

<table>
<thead>
<tr>
<th>High Standards</th>
<th>To promote high programming (a) ii, (a)viii(a)</th>
<th>The Content Leader: Achieve FTA leadership in</th>
<th>Output:</th>
</tr>
</thead>
</table>
| Standards and Editorial Integrity | ix, (b) xi | All local content genres. | Hours of local shows/films TVNZ has funded/co-funded or commissioned

**Quality:**
Number of upheld BSA/ASA complaints
Quantitative measure on “impartiality and editorial independence of News”

| Innovation | To promote innovation, risk taking and creativity | (a)vii, (a)viii | The Content Leader: Drive local content creativity and innovation. Extend public broadcasting delivery by launching new digital channels

**Output:**
Hours of non-derivative local/international programming

**Impact:**
Examples where we have been innovators in the industry, whether technically and in the delivery of content or via content

| New Zealand Talent | To support and promote the talents and the creative resources of New Zealanders. | (a)x; (b)xii, (b)vi | Valued As Their Public Broadcaster By All New Zealanders: Strengthen our relationships with viewers and other stakeholders.

**The Preferred Partner:**
Create profitable and productive Partnerships with the right Broadcasters, Local content providers, Industry bodies, Educational institutions.

**Reach:**
Reach of identified national and international programmes across all TVNZ services
- applies to programming:
  “featuring NZ films, drama, comedy and documentary programmes”
  “that encourage and support the arts, including programmes featuring NZ and international artists and arts companies

Cumulative audience (5+) across identified series/programmes
Number of people downloading the identified programmes from TVNZ ondemand/Podcasting over a fiscal year
Unique visitors to tvnz.co.nz for content supporting the identified programmes over a fiscal year

Number of identified programmes within the yearly Top Programmes list across 5+ and 18-39
Output:
Hours of local shows/films TVNZ has supported

Number of hours and hours of captioning of identified programmes across all TVNZ services
- applies to programming:
  “featuring NZ films, drama, comedy and documentary programmes”

  “that encourage and support the arts, including programmes featuring NZ and international artists and arts companies”

Quality:
Appreciation Index as above

Impact:
PIBB – Industry Support (including scholarships, training, support of industry bodies etc)
General Charter Measures

These measures highlight national and international programming across all genres that entertains, informs and educates NZ audiences.

General Output Measures

Number of hours per genre (across all TVNZ services)
- Entertainment
- Factual and Arts
- Kids
- Maori
- Lifestyle
- News and Current Affairs
- Sport

General Reach Measures

- Average monthly cumulative audience (5+) of TVNZ channels
- Number of people downloading TVNZ content from TVNZ ondemand/Podcasting over a fiscal year
- Unique visitors to tvnz.co.nz over a fiscal year
- Number of TVNZ programmes within the yearly Top Programmes list across 5+ and 18-39
APPENDIX II – Board of Directors – Governance and Committees

The Board operates under two Acts of Parliament – the Companies Act and the Crown Entities Act 2004. Under Section 92 of the latter the Board is obliged to ensure TVNZ acts in a manner consistent with this Statement of Intent.

These obligations and how it carries out its governance role and conducts its meetings are contained in the Board’s Governance and Policy Manual.

There are two standing committees, “Audit and Risk” and “Remuneration and HR”.

The Audit and Risk Committee makes recommendations and gives counsel and information to the Board concerning its accounting and reporting responsibilities and evaluates risk management practices. It also oversees Internal Audit.

As well as assisting TVNZ’s Human Resources with strategic planning and practices, the Remuneration and HR Committee approves any movement in the remuneration of the company’s senior executives and presenters. The Chief Executive Officer’s remuneration and the structure and operation of the Executive Bonus Scheme are also recommended by the Committee to the Board.
### APPENDIX III – Forecast Financial Statements

#### a) Statement of Forecast Financial Performance for the twelve months ending 30 June 2008

<table>
<thead>
<tr>
<th>Description</th>
<th>($000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Revenue</td>
<td>387,079</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>(348,486)</td>
</tr>
<tr>
<td>Depreciation</td>
<td>(17,306)</td>
</tr>
<tr>
<td>Amortisation</td>
<td>(1,104)</td>
</tr>
<tr>
<td>Total Operating Expenses</td>
<td>(366,896)</td>
</tr>
<tr>
<td>Operating Surplus before interest expense and income tax</td>
<td>20,183</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(5,261)</td>
</tr>
<tr>
<td>Interest received</td>
<td>2,075</td>
</tr>
<tr>
<td>Income Tax expense</td>
<td>(5,609)</td>
</tr>
<tr>
<td>Net surplus for the year</td>
<td>11,388</td>
</tr>
</tbody>
</table>

#### b) Statement of Forecast Movements in Equity for the twelve months ending 30 June 2008

<table>
<thead>
<tr>
<th>Description</th>
<th>($000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net surplus for the year</td>
<td>11,388</td>
</tr>
<tr>
<td>Distributions to the shareholder</td>
<td>(7,972)</td>
</tr>
<tr>
<td>Movements in equity for the year</td>
<td>3,416</td>
</tr>
<tr>
<td>Equity at start of the year</td>
<td>176,897</td>
</tr>
<tr>
<td>Equity at end of the year</td>
<td>180,313</td>
</tr>
</tbody>
</table>

#### c) Statement of Forecast Financial Position as at 30 June 2008

<table>
<thead>
<tr>
<th>Description</th>
<th>($000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share Capital</td>
<td>140,000</td>
</tr>
<tr>
<td>Retained Earnings</td>
<td>40,313</td>
</tr>
<tr>
<td>Total equity</td>
<td>180,313</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>104,779</td>
</tr>
<tr>
<td>Non current liabilities</td>
<td>91,221</td>
</tr>
<tr>
<td>Total funds employed</td>
<td>376,313</td>
</tr>
<tr>
<td>Current assets</td>
<td>216,373</td>
</tr>
<tr>
<td>Non current assets</td>
<td>159,940</td>
</tr>
<tr>
<td>Total assets employed</td>
<td>376,313</td>
</tr>
</tbody>
</table>
d) Statement of Forecast Cash Flows for the twelve months ending 30 June 2008

<table>
<thead>
<tr>
<th>Net cash flows from/(to):</th>
<th>($000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating activities (excluding interest, tax and dividends)</td>
<td>29,730</td>
</tr>
<tr>
<td>Net Interest paid</td>
<td>(3,186)</td>
</tr>
<tr>
<td>Income Tax paid</td>
<td>1,309</td>
</tr>
<tr>
<td>Investing activities</td>
<td>(40,851)</td>
</tr>
<tr>
<td>Financing activities</td>
<td>14,450</td>
</tr>
<tr>
<td>Net increase in Cash held</td>
<td>1,452</td>
</tr>
<tr>
<td>Cash at start of the year</td>
<td>24,288</td>
</tr>
<tr>
<td>Cash at end of the year</td>
<td>25,740</td>
</tr>
</tbody>
</table>

Accounting Policies

The accounting policies recognised by the New Zealand Institute of Chartered Accounts (NZICA) for the measurement and reporting of profit, financial position and cash flows have been adopted by TVNZ. For the purposes of this SOI the accounting policies adopted are in accordance with New Zealand International Financial Reporting Standards (NZ IFRS).

In accordance with NZ IFRS 1, the final opening NZ IFRS Balance Sheet will be prepared using accounting policies that comply with NZ IFRS effective at TVNZ’s reporting date for its first NZ IFRS financial statements, i.e. 30 June 2008. Therefore, the accounting policies used in preparing the financial information presented in the SOI may differ from those that will be adopted for the first NZ IFRS financial statements.

Particular Accounting Policies

The financial statements prepared are for the consolidated entity TVNZ. The consolidated financial statements comprise TVNZ and its subsidiaries (the “Group”) and the Group’s interest in jointly controlled entities.

The financial statements have been prepared on a historical cost basis except for derivative financial instruments that have been measured at fair value.

The following particular accounting policies, which materially affect the measurement of profit, financial position and cash flows are, applied:

a) Basis of consolidation
The consolidated financial statements comprise the financial statements of TVNZ and its subsidiaries at 30 June each year.
Subsidiaries are those entities controlled, directly or indirectly, by the Group. The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All inter-company transactions, balances and unrealised surpluses and deficits on transactions between Group companies are eliminated on consolidation. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

b) Interest in joint venture operations
The Group’s interest in its joint venture operation is accounted for by recognising the Group’s assets and liabilities from the joint venture, as well as expenses incurred by the Group and the Group’s share of income earned from the joint venture operation, in the consolidated financial statements.

c) Foreign currency
The functional and presentational currency of TVNZ and its subsidiaries is the New Zealand dollar.

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.

Foreign currency 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.

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

Depreciation is calculated on a straight-line basis to allocate the cost of assets over their estimated useful lives. Land is not depreciated.
The estimated useful lives for the current and comparable period are:

- Buildings: 40 years
- Leasehold improvements: 3 to 10 years
- Studio and transmission equipment: 5 to 10 years
- Other plant and equipment: 3 to 10 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. 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.

e) Intangible assets

**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 recognised as intangible assets at production cost.

Programme rights are amortised on the following basis:

(i) 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.

(ii) Movie programme rights are amortised on a straight line basis such that all rights are amortised within a period not exceeding three years 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 diminishing value methodology using the sum of digits over the remaining life of the licence.

**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 five years.

**f) Cash and cash equivalents**

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

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

**g) Trade and other receivables**

Trade receivables are recognised and carried at original invoice amount less an allowance for uncollectible amounts.

An estimate for doubtful debts is made when the collection of the full amount is no longer probable. Bad debts are written off when identified.

**b) Inventories**

Inventories comprise technical stores and videotape. All inventories are recorded at the lower of cost or net realisable value.

**i) Derecognition of financial instruments**

The derecognition of financial instruments takes place when the Group no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party.

**j) Derivative Financial Instruments**

The Group uses derivative financial instruments, within predetermined policies and limits, to reduce its exposure to fluctuations in foreign currency exchange rates and interest rates.

Such derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative contract is designed to hedge a specific risk and qualifies for hedge accounting.
Each derivative that is designated as a hedge is classified as either: i) a fair value hedge when they hedge the exposure to changes in the fair value of a recognised asset or liability or a firm commitment; or ii) a cash flow hedge where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

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

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

Hedge accounting is discontinued when the hedging instrument expires or is sold, or when the hedge no longer meets the criteria for hedge accounting. At that point any cumulative gain or loss existing in equity remains in equity until the forecasted 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 is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values of similar instruments.

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

k) Interest bearing borrowings
Borrowings are initially recognised at fair value, net of transactions costs incurred. Borrowings are subsequently measured at amortised cost using the effective interest method.

l) Borrowing costs
Borrowing costs are recognised as an expense when incurred.
m) Employee Benefits
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.

n) Provisions
Provisions are recognised when the Group has present legal or constructive obligation 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.

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

i) Rendering of services
Revenue from advertising and sponsorship is recognised as income at the time of transmission.

ii) Government grants
Government grants are recognised initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grant. Grants that compensate the Group for expenses incurred are recognised as income on a systematic basis in the same periods in which the expenses are recognised. Grants that compensate the Group for the cost of an asset are recognised as income in the income statement on a systematic basis over the useful life of the asset.

iii) Other revenue
Other revenue is recognised when the product has been delivered or in the accounting period in which the actual service has been provided.
iv) Interest
Interest revenue is recognised as the interest accrues to the net carrying amount of the financial asset.

p) Income tax expense
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.

Future tax benefits 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.

q) Leases
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.

r) Dividends
Provision is made for the amount of dividend declared on or before balance date but not distributed at balance date.

Commentary
The above forecast financial information is a forecast based on assumptions which TVNZ reasonably expects to occur. The significant assumptions underlying the forecast financial information including market shares and sales revenue are commercially sensitive. They are contained in the business plan provided to shareholding Ministers. For this reason, strict compliance with FRS 42 (Prospective Financial Information) cannot be achieved. The assumptions used are considered to be reasonable, supportable and consistent with the business plan and applied consistently. The actual results achieved for the period covered are likely to vary from the information presented, and the variations may be material. The purpose of the forecast financial information is to enable compliance with the Crown Entities Act 2004 (section 142). The information as presented may not be appropriate for purposes other than that described.
APPENDIX IV – Reporting requirements

Within two months after the end of the first six months of each financial year, TVNZ must prepare financial statements, information for non-commercial transmissions and non-financial commentary on the business for that half-year. This is in addition to the annual financial statements required to be prepared under section 154 of the Crown entities Act 2004.

TVNZ’s Annual Report, which contains information required under Section 152 of the Crown Entities Act 2004, must include a statement of its performance against its Charter using the performance measures set out in its SOI.

TVNZ will also supply the shareholding Ministers quarterly reports with provisional financial results and the information required in the Memoranda of Understanding with the Minister of Broadcasting including performance against the Charter measures, delivery of the Pacific Service and the still to be confirmed arrangements for the new digital channels.

Before the start of each financial year a Business Plan will be prepared for discussion with the shareholding Ministers.
APPENDIX V – Consultation, subsidiary and associated companies

TVNZ will in relation to any single or connected series of transactions, consult with shareholding Ministers of TVNZ on substantial matters not contemplated in the business plan including:

1. Any substantial capital investment in activities within the scope of its core business;
2. Any substantial expansion of activities outside the scope of its core business into new business areas;
3. The subscription for, or sale of, shares in any company or equity interests in any other organisation which are material, involve a significant overseas equity investment, or are outside the scope of its core business;
4. The sale or other disposal of the whole or any substantial part of the business or undertaking of TVNZ; and
5. Where TVNZ holds 20 percent or more of the shares in any company or other body corporate (not being a subsidiary of TVNZ), the sale or disposal of any shares in that company.

The terms “shareholding Ministers” and “subsidiary” have the same meanings as Section 4 of the Television New Zealand Act 2003. TVNZ will ensure at all times that:

1. Control of the affairs of every subsidiary of TVNZ is exercised by a majority of directors appointed by TVNZ; and
2. A majority of the directors of every subsidiary of TVNZ are persons who are also directors or employees of TVNZ, or who have been approved by the board of TVNZ for appointment as directors of the subsidiary.

In accordance with Section 100 of the Crown Entities Act 2004, TVNZ will ensure that it does not:

1. Acquire shares in a company that gives TVNZ substantial influence in or over that company; or
2. Acquire an interest in any partnership, joint venture, or other association of persons, or an interest in a company other than its shares; or
3. Settle, or be or appoint a trustee of, a trust, -

other than –

4. After written notice to its shareholding Ministers; and
5. In accordance with the consultation principles stated in the first paragraph above; and
6. For the purpose of TVNZ carrying out its functions, and acting consistently with its objectives under any Act and its constitution.