Television New Zealand Limited

Statement of Intent

For 3 Years Ending 30 June 2014

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26 July 2011

Hon Dr Jonathan Coleman
Minister of Broadcasting
Hon Bill English
Minister of Finance
Parliament Buildings
WELLINGTON

Dear Ministers

In many respects FY2011 was a good year for TVNZ. The company reduced operating costs, increased advertising market share and had excellent on screen performances.

TVNZ's goal is to perform even better in FY2012.

The global financial crisis still impacts the New Zealand economy and continues to be felt by advertising reliant media. We expect there will, however, be a gradual improvement in advertising revenues throughout FY2012.

That means in FY2012 TVNZ will still have a focus on cost control, productivity improvements and efficient use of assets. The company will also keep pressure on competitors around advertising market share and continue to search for, and put to air, outstanding programmes.

At a macro level, the acceleration of the structural changes in the New Zealand and international media business where digital content can be accessed almost at any time across multiple devices means TVNZ's strategy of "inspiring New Zealanders on every screen" is locked in as the company's mantra.

This means that in FY2012 TVNZ will continue to leverage its core free to air television activities to further develop its diversified business.

The Board continues to have confidence in the ability of the Executive team and staff to execute this strategy. Accordingly, despite the enormous changes going on in the industry and the uncertainty in the economy the company looks forward to FY2012.

Yours sincerely

Sir John Anderson
Chairperson

Joan Withers
Deputy Chairperson

1. Introduction

This Statement of Intent provides a range of financial and non-financial information and desired outcomes and measurements for FY2012 to allow for public scrutiny of TVNZ while at the same time giving the company commercial confidentiality.

2. Who we are and what we do

TVNZ is a Crown Owned Entity and has a Board of Directors appointed by the Minister of Broadcasting and the Minister of Finance. The Chief Executive has day to day management of the company.

The Television New Zealand Act provides the company editorial independence. Freedom from political influence is a fundamental principle. TVNZ's operations are governed by the:

- Television New Zealand Act;
- Companies Act;
- Crown Entities Act;
- Owner's Expectations Manual as published by the Crown Ownership Monitoring Unit;
- 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 TVNZ 7, the Pacific Service and Remote Services);
- 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.

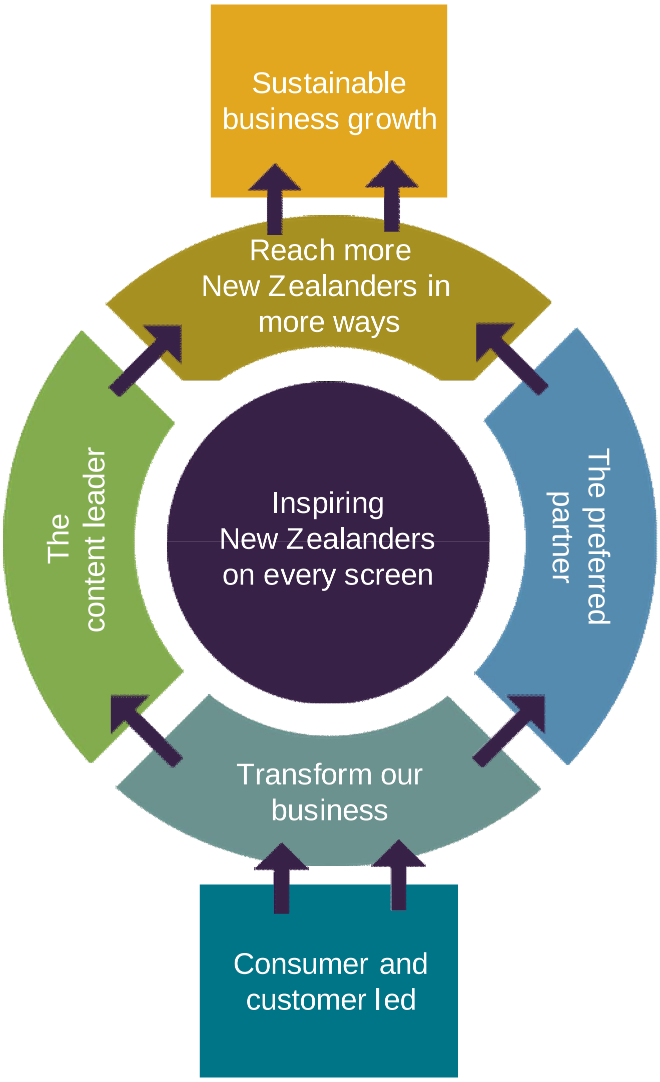
The functions of TVNZ are to be a successful national television and digital media company providing a range of content and services on a choice of delivery platforms and maintaining its commercial performance.

In carrying out its functions, TVNZ must provide high quality content that:

(a) is relevant to, and enjoyed and valued by, New Zealand audiences; and
(b) encompasses both New Zealand and international content and reflects Māori perspectives.

TVNZ's services must include the provision of channels that are free of charge and available to audiences throughout New Zealand.

TVNZ's strategy, "Inspiring New Zealanders on every screen", is the company's key business document and guides every day activities.



The strategy is led by consumer and customer wants and needs. Its pillars are:

- **Transform our business:** TVNZ will achieve organisational agility; build New Zealand's leading media brands; achieve total advertising revenue share growth; pursue revenue diversification; implement a fully and more efficient digital infrastructure; align our cost structure to achieve sustainable growth and profitability; and continue to improve how we produce, manage and deliver content.

- **The preferred partner:** TVNZ will continue to develop profitable and collaborative partnerships, both domestic and international; and strengthen its position as a preferred content supplier for digital channels and digital media.

- **The content leader:** TVNZ will increasingly improve its understanding of what content consumers want and need; achieve television and digital media leadership in all profitable content genres; build a profitable multi-channel, multiplatform strategy; maximise its share of contestable programme funding; drive local content creativity and innovation; and secure long term local and international multi-platform content rights.

- **Reach more New Zealanders in more ways:** TVNZ will maximise target audience share on all available screens; drive two-way interaction with consumers; provide and promote opportunities for its clients to engage with consumers across all screens; and sustain its leading position as New Zealanders' first choice for news, information and entertainment.

The 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 services to commercial and non-commercial partners;
- The provision of advertising and sponsorship services and related marketing activities;
- The broadcasting and narrowcasting of free to air and pay television channels, programmes and signals on all available platforms and devices;
- The provision of online services, development and delivery of content for the television, internet and communications industry;
- The provision of services to the broadcast industry, both domestically and internationally;
- The provision of audiovisual footage, programming, video and DVD rights, programme listing information, channel packaging and all other content related services and materials; and
- To undertake other media related activities, as determined by the Board.

TVNZ will focus on:

- Enabling content to be personalised, via interactive services, user-generated and shared content, and the time-shifting of content by Digital Video Recorders;
- Developing non-linear and other services that allow activities such as content downloading from the Internet;
- Transforming the business from a single medium operation to a multi-media, multi-platform company;
- Securing market presence where there is an opportunity to connect with the audience in a creative and desired way, or secure a future option to participate through a media alliance or platform partner;
- Exploring other media opportunities for both local and international content;
- Pursuing broad-based media propositions that go beyond airtime sales and look to diversify the earnings base; and
- Leveraging existing media assets to move into the multi-channel, multi-platform world to significantly protect the company's reach advantage and generate new revenues from either mass or consumer-based propositions.

Sector Outcome	*Ministry for Culture and Heritage cultural sector outcomes* Create	Preserve	Engage	
TVNZ Outcome	To be a successful national television and digital media company providing a range of content and services on a choice of delivery platforms and maintain commercial performance			
TVNZ Impacts	Provide a diverse range of NZ content	Help show Te Reo Maori & Tikanga Maori	Reach more NZ audiences in more ways	
	Help support a well developed television and media industry	Help show NZ content		
TVNZ Outputs	Commission and acquire content	Maintain an archive	Screen content on Freeview platform through TVONE, TV2, TVNZ7 and Channel U	Screen content on Sky platform through TVONE, TV2, TVNZ 7, Channel U, TVNZ Heartland & Kidzone 24
			Provide a Pacific Service for Pacific Broadcasters	Provide Closed Captioning service for deaf and hearing impaired Provide Audio Description service for blind and sight impaired
			Provide TVNZ ondemand Show content on TVNZ ondemand via PS3 Show content via iPhone and iPad applications	Screen content via syndication deals with other media
			Provide Remote Transmission Services for remote communities	Provide tvnz.co.nz
Inputs	Government Funding Commercial partnership funding Te Mangai Paho funding NZ On Air funding TVNZ commercial revenues			

3. The operating environment

FY2012 has a number of challenges for the company. They include:

3.1 Continued fragmentation of the television market and increased competition for viewers

With the proliferation of pay channels and digital media, viewers enjoy a vastly more rich media experience than 10 years ago.

Media fragmentation has, however, also led to the steady erosion of Free To Air TV audience share. In 2001, TVNZ had 62% audience share (AP 18-54). Today that figure sits at 46%.

In addition, competition is increasing from SKY/Prime (with 20% audience share) and TVWorks (with 32% audience share). The corresponding risk is a potential decline in our advertising revenues.

To mitigate this risk, TVNZ continues to pursue opportunities to expand our screen presence and content delivery strategies. By doing so, TVNZ is able to reach more New Zealanders in more ways, increase our aggregate audience across all screens, and extract commercial value from media fragmentation.

3.2 The continuously increasing cost of television content, both local and overseas

The cost to renew output deals will continue to escalate. Similarly, the cost of local production will continue to escalate as specific production activities become more complex. In order to mitigate this risk, we will:

- Continue to strengthen our position along the content value chain by retaining our mass audience, by forming strategic relationships with both local and international content rights holders, and by increasing funding from NZOA;
- Enhance our rights management capabilities to optimise the commercial value from the content rights we do secure, particularly in relation to our multi-platform distribution strategies; and
- Employ strong fiscal management in order to maintain financial flexibility should content costs vary significantly.

3.3 Ability to attract NZOA funding for commercially attractive local programming

Our ability to foster local talent and continue to commission New Zealand programmes depends heavily on access to the contestable public funding administered by NZOA.

Notwithstanding the inherent uncertainty of any contestable funding scheme, there remains the risk of potential misalignment between the programming objectives of NZOA with the commercial objectives of TVNZ. This could result in the inability of TVNZ to attract NZOA funding for commercially attractive local programming.

To mitigate this risk, we will engage NZOA to align objectives, agree aims for commercially attractive local programming and address potential revisions to funding criteria.

3.4 Ability to sustain and grow digital media and digital channel activities

Since beginning our journey of *Inspiring New Zealanders on Every Screen* in 2006, we have launched new digital media and digital channel initiatives. Five years on, we now have a strong digital presence.

The challenge is to harness this digital presence to drive revenue growth and other commercial benefits.

To mitigate this risk, we will continue to pursue growth in our pay channel business and further grow and diversify our video on demand business. In addition, we will periodically review and update our digital media and digital channel strategies to ensure they remain relevant and reflect prudent cost management.

3.5 Ability to maintain market leadership as we transition to DSO and UFB

Digital Switch Over will be phased in starting September 2012 and ending November 2013. In addition, the Government plans to complete the nation-wide Ultra Fast Broadband network by 2019.

These two developments will present significant opportunities for us to improve reach and strengthen our position as the leading television and digital media company.

To mitigate this risk, we implemented our digital media management infrastructure, which offers faster and greater flexibility in media production and distribution across digital platforms. From this foundation we will further investigate options to enhance our content and services across digital platforms.

4. What we plan to do: operations and activities

In FY2012 TVNZ will continue to focus on building sustainable business growth and delivering improved Return on Equity. Therefore, the strategic priorities in FY2012 will be:

4.1 Grow commercial performance of TV ONE and TV2

The core of TVNZ's business remains TV ONE and TV2. Both channels have enjoyed strong prime time performance against their target demographics during FY2011.

Since mid-November 2010, TV ONE has delivered year on year weekly ratings gains for 25-54s. Similarly TV2 has sustained the high ratings it achieved in FY2010 and continues to outperform all other channels in share of 18-39s.

In FY2012, TVNZ will sustain and improve TV ONE and TV2 performance against audience targets, monetise this performance, improve yield and strengthen these core brands.

4.2 Increase TVNZ's share of NZ On Air funding

TVNZ will continue to commission and produce commercially-viable local programming and we will continue to participate in the NZOA contestable funding to support this aim.

However, we face two challenges. Firstly, we need to increase our share of overall funding. In doing so, we need to direct more of our efforts towards securing funds for commercially-attractive, peak programming. Secondly, we need to engage NZOA to broaden the availability of funding for commercially-attractive genres.

Genres that demonstrate the greatest commercial potential are drama, comedy, entertainment and popular factual, yet only about 50% of NZOA's total awards support peak programming across these categories.

4.3 Grow TVNZ's advertising revenues and be the preferred television and digital media company for advertisers and agencies

TVNZ employs competitively differentiating tools for demand creation and client partnership. In doing so, we are able to deliver a premium advertising proposition, and are able to extend this proposition across a multi-screen presence. We aim to capture a greater share of the market and a greater share of the "wallet" (i.e. advertising spend across all media).

4.4 Continue the profitable diversification of TVNZ and its activities

Media fragmentation and changing consumer behaviours present opportunities for TVNZ to capture advertising spend from digital media and explore new business models.

In recent years, TVNZ has capitalised on these opportunities and today delivers the market a comprehensive multi-screen proposition. This includes the market leading platform for video on demand, content delivery to various platforms and mobile devices, two digital subscription channels and social media extensions.

In FY2012, TVNZ will drive profitable growth from the more established digital media assets and consolidate gains from recent business expansion.

4.5 Continue transformation to a consumer and customer focussed organisation

TVNZ is continuously adapting to changing consumer (and customer) behaviours. We must continue this transformation in order to sustain reach and remain relevant at commercially important touch points.

In FY2012, we will improve our understanding of consumer challenges, trends and purchasing behaviours. Similarly, we will achieve greater insight into what customers want.

We will progress this transformation and, ultimately, ensure that our brands remain relevant across a multi-screen presence and that our advertising platforms continue to support customer objectives.

4.6 Address unprofitable and uneconomic TVNZ business activities, and continue process and cost efficiency initiatives across the company

In FY2012, TVNZ will continue to review the business and address unprofitable and uneconomic activities, either halting them or transforming these activities into profitable endeavours. In addition, we will continue to explore opportunities for process and cost efficiency gains.

5. Capability

As part of TVNZ's strategy "Inspiring New Zealanders on every screen" the company has worked hard to have the right people working in the right jobs. This means having an adaptable workforce that isn't afraid of the constantly changing nature of modern broadcasting and digital media companies.

As at 30 April 2011 TVNZ employed 958 FTEs in its Auckland, Hamilton, Wellington, Christchurch, Dunedin, Sydney and London offices. Some 18 percent of employees at TVNZ are members of the joint Collective Agreement with the PSA and the EPMU.

In FY2012 TVNZ will continue 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 satisfactory outcomes through good faith negotiation;
- Ensure a healthy and safe work environment;
- Provide appropriate learning and development opportunities;
- Recognise the needs and aspirations of all employees, including Maori;
- Demonstrate equal opportunity practices which firmly discourage discrimination; and
- Operate a performance management appraisal system that allows employees full participation in their own performance reviews.

TVNZ takes seriously its commitment to treating people fairly and with respect, ensuring equality of access to opportunities and understanding, appreciating and realising the benefits of individual differences.

6. Non-financial performance

TVNZ has developed a series of performance measures to demonstrate efficiency and productivity, which will be reported in the Annual Report.

- Public programme funding efficiency

  We will select the 10 largest publicly funded programmes on TVNZ channels. We will quantify the number of times these programmes are viewed, during broadcast and on TVNZ Ondemand. We will then calculate the level of public programming funding per time viewed.

  We will look to develop a benchmark of "public funding investment per time viewed" by genre based upon programmes broadcast on TVNZ and on other New Zealand broadcasters receiving public funding for television programmes.

- Return on aggregate programme investment

  We will calculate the ratio of total programme cost as a percentage of total programme related revenue. This ratio will provide the return on programme investment being achieved.

  We will report the current year actual performance versus budget, and prior year results. This will provide a multi-year performance trend.

- Business efficiency

  We will calculate total non-programme costs as a percentage of total revenue.

  We will report current year actual performance versus budget, and prior year results. This will provide a multi-year performance trend.

- Revenue productivity

  We will calculate average revenue (based on total gross revenue) per full time equivalent employee.

  We will report current year actual versus budget, and prior year results. This will provide a multi-year performance trend.

7. Financial performance

For FY2012 they are:

Measurement	FY2010 Actual	FY2011 Forecast	FY2012 Target
Profitability			
Return on average equity (%)	(15.2%)	1.0%	9.1%
EBITDA/Core television revenue	10.9%	16.6%	14.4%
Gearing			
Net interest-bearing debt/net interesting-bearing debt plus equity	18.9%	11.7%	Less than 40%
Financial Stability			
Total equity/total assets	58.5%	62.2%	More than 40%
Interest Cover			
EBITDA/Interest expense	10.6 times	16.6 times	More than 4 times

Reporting against these financial measures will be included in the annual report.

8. Dividends and capital structure

Each year – on or about 30 September - the company's shareholders will receive funds surplus to TVNZ's investment and operating requirements. The company's dividend will be reviewed annually by TVNZ's Directors who 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.

The dividend for FY2012 is expected to be 70% of net profit after tax.

9. Reporting and consultation

TVNZ's statutory reporting and consultation requirements are set out in APPENDICES III and IV.

TVNZ operates a "no surprises" policy with Shareholding Ministers and will communicate in advance any issues that are controversial or likely to be of wider public interest.

It is important to note, however, that this approach takes into account the Television New Zealand Amendment Act 2011's editorial independence provisions which guarantee News and Current Affairs, programming and complaints are dealt with free from political direction.

10. Statement of Forecast Service Performance

TVNZ is granted an exemption under Section 143 of the Crown Entities Act 2004 from including in its Statement of Forecast Service Performance outputs which are not directly funded (in whole or in part) by the Crown.

TVNZ will list all Crown-funded outputs in the Statement of Service Performance in its Annual Report and these will include:

- contestable programme funding from NZ On Air;
- programme funding from Te Mangai Paho;
- funding for programme captioning and audio description from NZ On Air;
- transmitting TVNZ programmes to Pacific nations with funding from the Ministry for Culture and Heritage;
- maintaining non-commercial transmission coverage with funding from the Ministry for Culture and Heritage; and
- funding for TVNZ 7.

a) Contestable programme funding from NZ On Air

As NZ On Air operates on a contestable programme by programme funding application basis, TVNZ cannot specify the level of revenue anticipated in FY2012. 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:

- by programme title;
- by month of broadcast;
- hours broadcast by programme;
- level of funding received by programme; and
- 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 TVNZ has produced and delivered each programme in accordance with the contractual conditions agreed with NZ On Air.

The target is to exceed 320 hours per annum of NZOA funded local programmes broadcast on TVONE and TV2 (subject to success of applications for contestable funding).

b) Programme funding from Te Mangai Paho

Te Mangai Paho funds TVNZ for the production and broadcast of Maori programmes. The funding for FY2012 will be $5,592,165 million (excluding GST). TVNZ will report on each programme that has received Te Mangai Paho funding by:

- programme title;
- month of broadcast;
- hours broadcast by programme;
- level of funding received by programme; and
- number of viewers (5+) by programme.

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

The target is to exceed 150 hours per annum of Maori programmes broadcast on TVNZ channels.

c) Funding for programme captioning and audio description from NZ On Air

NZ On Air funds TVNZ for captioning on TV ONE, TV2 and TV3 to be provided continuously during prime time (with any failure rate not to exceed a weekly rate of 10% of non-captioned hours) and on at least 10 hours of children's programming per week.

Daily news bulletins and current affairs shows *Midday, ONE News at 6pm, Close Up* and *Tonight* are also captioned. An English language subtitling service is provided for Maori language programmes *Te Karere* and *Waka Huia*.

Audio description is funded for all episodes of Coronation Street, plus several prime-time shows.

The funding for the captioning service is $1,950,000 (excluding GST).

The funding for the audio description service is $500,000 (excluding GST).

The forecast standard of output will be compliant with the terms of the contract with NZ On Air relating to the funding of programme captioning and audio description.

The target is to exceed 150 hours per week of captioned programmes on TVNZ channels.

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

TVNZ receives funding to transmit programmes by satellite to Pacific nations. The expected funding for FY2012 is $607,000 (excluding GST).

TVNZ will provide a minimum of 11 hours transmission of TVNZ programming to Pacific nations weekly in FY2012, with programming to include:

- daily transmission of *ONE News at 6pm*;
- weekly transmission of *Tagata Pasifika*; and
- transmission of other programmes relevant to Pacific nations within available funding.

TVNZ will report the:

- list of programmes transmitted;
- total hours transmitted;
- actual costs of distribution;
- costs of repair or replacement of Pacific nations' satellite transmission reception equipment damaged by natural elements (if any contribution is made); and
- list of Pacific nations receiving the broadcasts.

The target is to exceed 390 hours per annum transmitted to the Pacific.

e) Maintaining non-commercial transmission coverage with funding from the Ministry for Culture and Heritage

This funding is for the transmission of the TV ONE and TV2 signals to selected New Zealand communities that would not otherwise receive a commercially viable terrestrial signal. The funding for FY2012 is $1.105 million (excluding GST).

TVNZ undertakes, via a contract with transmission company Kordia, 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. With Digital Switch Over planned to occur in 2012 and 2013 any non-commercial transmission coverage equipment that becomes unserviceable will not be replaced.

The performance standards for this output will be compliant with the terms of the Memoranda of Understanding between the Minister of Broadcasting and TVNZ.

f) Funding for TVNZ 7

The Shareholder committed $79 million funding over a five year period for the operation of digital channels on the Freeview platform. This funding is due to expire in June 2012.

Four outputs will be measured in FY2012 and they are the levels of:

- awareness and appreciation;
- financial investment in content production and acquisition and non-content related activities;
- financial investment in New Zealand-made productions & acquisitions; and
- scheduled exposure of New Zealand made productions & acquisitions.

APPENDIX I – 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 Human Resources".

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 Human Resources Committee monitors 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 for approval.

APPENDIX II – Forecast Financial Statements

The following 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.

a) Statement of Forecast Financial Performance for the twelve months ending 30 June 2012

	($m)
Operating Revenue	378.0
Operating Expenses	(332.6)
Depreciation	(20.9)
Amortisation	(0.5)
Total Operating Expenses	(354.0)
Operating Surplus before interest expense and income tax	24.0
Interest expense	(3.3)
Share of Associate	(0.8)
Income Tax expense	(5.8)
Net surplus for the year	14.1

b) Statement of Forecast Movements in Equity for the twelve months ending 30 June 2012

	($m)
Net surplus for the year	14.1
Distributions to the shareholder	(12.8)
Movements in equity for the year	1.3
Equity at start of the year	153.7
Equity at end of the year	155.0

c) **Statement of Forecast Financial Position as at 30 June 2012**

	($m)
Share Capital	(140.0)
Retained Earnings	(15.0)
Total equity	(155.0)
Current liabilities	(52.6)
Non current liabilities	(38.7)
Total funds employed	(246.3)
Current assets	77.1
Non current assets	169.2
Total assets employed	246.3

d) **Statement of Forecast Cash Flows for the twelve months ending 30 June 2012**

Net cash flows from/(to):	($m)
Operating activities (excluding interest, tax and dividends)	37.2
Net Interest paid	(3.2)
Income Tax paid	(6.0)
Investing activities	(18.0)
Financing activities	(10.5)
Net increase in Cash held	(0.5)
Cash at start of the year	0.7
Cash at end of the year	0.2

Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

a) Basis of preparation

The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand (NZ GAAP) and the requirements of the Television New Zealand Act 2003, Financial Reporting Act 1993 and the Companies Act 1993. The financial statements have been prepared on a historical cost basis except for derivative financial instruments that have been measured at fair value.

The carrying values of recognised assets and liabilities that are hedged are adjusted to record changes in the fair values attributable to the risks that are being hedged.

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 unless otherwise stated.

b) Basis of consolidation

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

Subsidiaries are those entities controlled, directly or indirectly, by the Group. The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist. All intercompany 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.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting.

Investments in subsidiaries are accounted for at cost, less allowance for impairment, in the separate financial statements of the Company.

c) Foreign currency

The functional and presentational currency of Television New Zealand Limited 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) Revenue recognition

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

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.

e) 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.

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

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

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

f) 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.

g) Dividends

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

h) 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
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 to. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash generating units are written down to their recoverable amount.

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

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

i) 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 initially recognised as intangible assets at production cost. Production costs only include direct costs associated with the programme.

Programme rights are amortised on the following basis:

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

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

Frequency licences

Frequency licences are recorded at cost less amortisation and impairment losses. Amortisation is calculated on a 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 ten years.

Development costs

Development costs on internal projects are only capitalised by the Group when it can be demonstrated that the technical feasibility of completing the intangible asset is valid so that the asset will be available for use. Any development costs capitalised are amortised over the period of the estimated economic life of the asset to which they relate.

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

j) Cash and cash equivalents

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

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

k) Trade and other receivables

Trade receivables are recognised and carried at original invoice amount and subsequently measured at amortised cost, less an allowance for impairment.

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

l) Inventories

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

m) Derivative financial instruments

The Group uses derivative financial instruments, within predetermined policies and limits, to manage its exposure to foreign currency exchange rate risk and interest rate risk. The Group also enters into programme supply contracts that contain a foreign currency embedded derivative.
Such derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative contract is designed to hedge a specific risk and qualifies for hedge accounting.

Each derivative that is designated as a hedge is classified as either: i) a fair value hedge when 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 other comprehensive income. The gain or loss relating to the ineffective portion is recognised in the income statement. Amounts accumulated are recycled in the income statement in the period when the hedged item affects profit or loss. When the hedged firm commitment results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses that had previously being recognised in equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability.

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

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are recognised immediately in the income statement.

The fair value of forward exchange contracts and embedded derivatives are calculated by reference to current forward exchange rates for contracts with similar maturity profiles. 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.

n) Borrowings and borrowing costs

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

o) Trade and other payables

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

p) Investment in associate

The Group's investment in its associates is accounted for using the equity method of accounting in the consolidated financial statements. Associates are entities over which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the income and expenses of the associate from the date that significant influence commenced until the date that significant influence ceases. The Group's share of its associate post acquisition profits or losses is recognised in the income statement and its share of post acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate exceeds its interest in the associate, including any unsecured long-term receivables and loans, the Group does not recognise any further losses, unless it has incurred obligations or made payments on behalf of the associate.

q) Interest in a jointly controlled entity

The interest in a joint venture entity is accounted for in the consolidated financial statements using the equity method of accounting and is carried at cost by the parent entity. Under the equity method, the Group's share of the results of the joint venture is recognised in the income statement, and the share of movements in reserves is recognised in the statement of financial position.

r) 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.

s) 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.

APPENDIX III – Reporting requirements

Within two months after the end of the first six months of each financial year, TVNZ must prepare financial statements on the business for that half-year in accordance with the Television New Zealand Act 2003.

This is in addition to the annual financial statements required to be prepared under section 154 of the Crown entities Act 2004.

TVNZ will also supply the Shareholding Ministers quarterly reports with provisional financial results and the information required under the Memoranda of Understanding with the Minister of Broadcasting.

Before the start of each financial year a Business Plan will be prepared for discussion with the shareholding Ministers.

APPENDIX IV – 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 to the value of more than $25 million 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.

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.