



Interim Report

FINANCIAL YEAR 2020



Re:





Consolidated Interim Financial Statements

FOR THE SIX MONTHS ENDED 31 DECEMBER 2019 (UNAUDITED)



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Chief Executive's Overview



News, Sport and OnDemand drive strong first half performance for TVNZ

TVNZ reported EBITDAF of \$26.3 million for the six months to 31 December 2019, \$0.5 million (2%) above the prior year.

Total revenue was up \$5.5 million (3%) to \$179 million due to growth in both television and online advertising revenue. Key drivers included strengthened share of TV advertising, continued online growth, and the positive impact of Rugby World Cup during the period.

Operational expenses of \$152.8 million are \$5.1 million (3%) higher than last year. This increase is consistent with TVNZ transformation plans to future proof business capabilities and migrate content investment from international to local, including sport.

TVNZ has reported a FY2020 interim Net Profit of \$15.8 million, up \$5.0 million (47%) year on year.

TVNZ CEO Kevin Kenrick says the results are an encouraging start to the 2020 financial year. "Strong ratings performance for our primetime daily news programmes and live sport enabled TVNZ to grow share of audiences and advertising revenue for the half year.

"Close to 3 million New Zealanders tuned in to watch Rugby World Cup games on TVNZ 1 and DUKE. TVNZ has subsequently secured additional sports rights in partnership with Sky (Tokyo 2020 Olympic Games) and Spark Sport (NZ Cricket) to complement existing Tokyo 2020 Paralympic Games and America's Cup content rights."





1 NEWS AT SIX, NEW ZEALAND'S MOST WATCHED TV PROGRAMME



SHORTLAND STREET, THE NUMBER ONE STREAMED TVNZ ONDEMAND SHOW

TVNZ OnDemand has performed extremely well, with ongoing growth in total video streams and audience reach propelling online revenue growth of 26% year-on-year. Viewer experience has been enhanced with the launch of individual profiles, and the new 'ad on pause' functionality has increased value for advertisers. TVNZ is keeping pace with global scale online streaming competitors, illustrated by Horizon Research recognising TVNZ OnDemand as New Zealand's most used online content service during 2019, ahead of Netflix," he says.

TVNZ will continue to accelerate its migration from international to local content and investment to future proof core business capabilities in the second half of the financial year. The strong start to FY20 provides the business with increased confidence in its ability to fund the required business transformation over the next three years from its cash reserves.

Increased investment in digital capability and local content is forecast to step up in the second half of the year and COVID-19 has the potential to soften market demand for advertising during this period. Given the strong first half start to the year the business is forecasting to deliver on its financial year 2020 Statement of Performance Expectations.

Kevin Kenrick

Highlights

FOR THE PERIOD

11 TV Awards – including **MATTY MCCLEAN** Woman's Day Television Personality of the year



Contemporary Maori perspectives in a third season of much loved *The Casketeers*

Jenny-May Clarkson joined the *Breakfast* team



Rugby World Cup – 2.9 million viewed



NEW local comedy with the launch of *Have You Been Paying Attention*



Celebrity Treasure Island 2019

EARNINGS (EBITDAF)

\$26.3m

↑ 2% YOY

TOTAL REVENUE

\$179m

↑ 3% YOY

ONDEMAND VIDEO STREAMS

Total streams

95.4m

↑ 20% YOY

NET PROFIT

\$15.8m

↑ 47% YOY

TV AUDIENCE SHARE

44.5%

↑ HIGHEST SHARE SINCE 2010

ONDEMAND VIDEO STREAMS

Average Weekly Audience Reach

356,714

↑ 8% YOY

Source: Nielsen TAM, Consolidated, TVNZ Share% AP5+, Jul-Dec 19

OnDemand Source: Google Analytics, AP, Jul-Dec 19

Consolidated Income Statement

FOR THE SIX MONTHS ENDED 31 DECEMBER 2019 (UNAUDITED)

	Notes	Consolidated		
		Six Months Ended 31/12/19 \$000	Six Months Ended 31/12/18 \$000	Year Ended 30/06/19 \$000
Operating revenue	3	179,045	173,487	310,673
Expenses				
Programming		(92,435)	(90,101)	(168,793)
Employee benefits		(26,339)	(24,634)	(49,533)
Transmission, technology and telecommunications		(11,274)	(10,831)	(22,169)
Premises and occupancy		(1,941)	(2,049)	(4,033)
Marketing		(6,525)	(5,575)	(14,414)
Other	4	(14,246)	(14,463)	(27,174)
		(152,760)	(147,653)	(286,116)
Earnings before interest, tax, depreciation and amortisation, financial instruments and joint venture (EBITDAF)		26,285	25,834	24,557
Depreciation and amortisation		(10,268)	(9,411)	(19,331)
Interest income		254	326	668
Interest expense		(83)	(56)	(129)
Financial instruments/foreign currency/losses		(360)	(1,690)	(1,628)
Share of results of joint venture		(52)	(22)	(33)
Profit for the period before tax		15,776	14,981	4,104
Income tax expense	5	0	(4,240)	(1,232)
Profit for the period		15,776	10,741	2,872

The accompanying notes form part of these financial statements.

Consolidated Statement of Comprehensive Income

FOR THE SIX MONTHS ENDED 31 DECEMBER 2019 (UNAUDITED)

	Consolidated		
	Six Months Ended 31/12/19	Six Months Ended 31/12/18	Year Ended 30/06/19
	\$000	\$000	\$000
Profit for the period	15,776	10,741	2,872
Other comprehensive income reclassifiable to profit or loss in subsequent periods			
Revaluation land and buildings	0	0	9,077
Income tax effect	0	0	(1,898)
Revaluation of land and buildings, net of tax	0	0	7,179
Total comprehensive income for the period	15,776	10,741	10,051

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity

FOR THE SIX MONTHS ENDED 31 DECEMBER 2019 (UNAUDITED)

	Share capital \$000	Revaluation reserve \$000	Retained earnings \$000	Total \$000
At 1 July 2019	140,000	57,043	51,902	248,945
Total comprehensive income	0	0	15,776	15,776
Equity transactions				
Dividend paid in the period	0	0	0	0
At 31 December 2019	140,000	57,043	67,678	264,721
At 1 July 2018	140,000	49,864	52,779	242,643
Total comprehensive income	0	0	10,741	10,741
Equity transactions				
Dividend paid in the period	0	0	(3,749)	(3,749)
At 31 December 2018	140,000	49,864	59,771	249,635
At 1 July 2018	140,000	49,864	52,779	242,643
Total comprehensive income	0	7,179	2,872	10,051
Equity transactions				
Dividend paid in the period	0	0	(3,749)	(3,749)
At 30 June 2019	140,000	57,043	51,902	248,945

The accompanying notes form part of these financial statements.

Consolidated Statement of Financial Position

AS AT 31 DECEMBER 2019 (UNAUDITED)

	Notes	Consolidated	
		As at 31/12/19 \$000	As at 30/06/19 \$000
ASSETS			
Current Assets			
Cash and cash equivalents		64,950	35,800
Trade and other receivables		56,310	53,448
Programme rights		49,373	43,204
Derivatives		71	64
Total current assets		170,704	132,516
Non-current assets			
Property, plant and equipment		150,664	156,395
Right-of-use assets	7	1,283	0
Other intangibles		12,266	14,090
Deferred tax asset		406	406
Derivatives		2	0
Investment in joint venture		0	52
Total non-current assets		164,621	170,943
Total assets		335,325	303,459
LIABILITIES			
Current Liabilities			
Bank overdraft		0	1,640
Trade and other payables		60,012	42,790
Employee entitlements		3,877	3,959
Deferred income		2,453	3,247
Lease liabilities	7/8	559	0
Derivatives		974	835
Total current liabilities		67,875	52,471
Non-current liabilities			
Employee entitlements		957	981
Derivatives		279	303
Lease liabilities	7/8	734	0
Provisions		759	759
Total non-current liabilities		2,729	2,043
Equity			
Contributed equity		140,000	140,000
Revaluation reserves		57,043	57,043
Retained earnings		67,678	51,902
Total equity		264,721	248,945
Total equity and liabilities		335,325	303,459

The accompanying notes form part of these financial statements.

Consolidated Statement of Cash Flows

FOR THE SIX MONTHS ENDED 31 DECEMBER 2019 (UNAUDITED)

	Notes	Consolidated		
		Six Months Ended 31/12/19 \$'000	Six Months Ended 31/12/18 \$'000	Year Ended 30/06/19 \$'000
Cash flows from/(used in) operating activities				
Receipts from customers		177,088	172,769	302,566
Receipt of programme funding		1,147	2,037	4,397
Interest received		240	343	691
Payments to suppliers and employees		(144,906)	(153,738)	(297,520)
Interest paid		(83)	(56)	(129)
Income tax received / (paid)		10	(1,796)	(1,977)
Net cash flows from/(used in) operating activities	6	33,496	19,559	8,028
Cash flows from/(used in) investing activities				
Proceeds from sale of property, plant and equipment		0	0	4
Purchase of property, plant and equipment		(1,269)	(662)	(6,430)
Purchase of intangibles		(1,161)	(4,149)	(2,957)
Net cash flows from/(used in) investing activities		(2,430)	(4,811)	(9,383)
Cash flows from/(used in) financing activities				
Lease liability payments		(273)	0	0
Dividends paid		0	(3,749)	(3,749)
Net cash flows from/(used in) financing activities		(273)	(3,749)	(3,749)
Net increase/(decrease) in cash and cash equivalents		30,793	10,999	(5,104)
Net foreign exchange differences		(3)	1	(4)
Cash and cash equivalents at the beginning of the period		34,160	39,268	39,268
Cash and cash equivalents at the end of the period		64,950	50,268	34,160

The accompanying notes form part of these financial statements.

Notes to the Consolidated Financial Statements

FOR THE SIX MONTHS ENDED 31 DECEMBER 2019 (UNAUDITED)

1. CORPORATE INFORMATION

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

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

These consolidated financial statements were approved for issue by the Board of Directors on 28 February 2020.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation

The unaudited interim financial statements for the six months ended 31 December 2019 have been prepared in accordance with NZ IAS 34 Interim Financial Reporting and the requirements of the Television New Zealand Act 2003.

The unaudited interim financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the TVNZ's annual financial statements as at 30 June 2019.

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

b) Accounting policies

The accounting policies used in the preparation of the unaudited interim financial statements are consistent with those used in the preparation of TVNZ's annual financial statements for the year ended 30 June 2019, with the exception that NZ IFRS 16 Leases has been adopted during the period. The adoption of NZ IFRS 16 resulted in no adjustments to previously reported results.

c) Accounting standards and interpretations adopted in the current period

Effective 1 July 2019, TVNZ adopted NZ IFRS 16 Leases, the new standard requires a lessee to recognise a lease liability that reflects future lease payments and a right-of-use asset for virtually all lease contracts.

Refer note 7 and 8 for the effect of the new accounting standard on the interim financial statements.

Notes to the Consolidated Financial Statements *(continued)*

FOR THE SIX MONTHS ENDED 31 DECEMBER 2019 (UNAUDITED)

3) OPERATING REVENUE

	Six Months Ended 31/12/19	Six Months Ended 31/12/18	Year Ended 30/06/19
	\$000	\$000	\$000
Advertising revenue	170,326	163,145	293,237
Programme funding	2,548	2,938	5,443
Other trading revenue	6,171	7,404	11,993
	179,045	173,487	310,673

Accounting policy

TVNZ derives revenue from the transfer of goods and services. Revenue recognition is based on the delivery of performance obligations and an assessment of when control is transferred to the customer at an amount that reflects the consideration to which TVNZ expects to be entitled in exchange for those services.

Revenue is stated exclusive of goods and services tax (GST).

Key classes of revenue are recognised on the following basis:

Advertising

TVNZ is in the business of providing advertising services on its free to air television and OnDemand digital streaming channels. Advertising revenue is recognised as income at the time the performance obligation has been met. Advertising revenue includes revenue from advertising, sponsorship and programme production funding on TVNZ 1, TVNZ 2, TVNZ DUKE, TVNZ OnDemand and tvnz.co.nz. Where TVNZ provides advertising for non-cash consideration, revenue is recognised at the fair value of the consideration received, unless TVNZ cannot reasonably estimate the fair value of the non-cash consideration; in which case revenue is recognised by reference to the stand-alone selling price of the advertising promised to the customer.

TVNZ provides retrospective volume rebates to certain customers once the quantity of advertising services purchased during the period exceeds a threshold specified in the contract. Rebates are offset against amounts payable by the customer. To estimate the variable consideration for the expected future rebates, TVNZ applies the most likely amount method for contracts with a single-volume threshold and the expected value method for contracts with more than one volume threshold. The selected method that best predicts the amount of variable consideration is primarily driven by the number of volume thresholds contained in the contract. TVNZ then applies the requirements on constraining estimates of variable consideration and recognises a refund liability for the expected future rebates.

Programme funding

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

Notes to the Consolidated Financial Statements *(continued)*

FOR THE SIX MONTHS ENDED 31 DECEMBER 2019 (UNAUDITED)

3) OPERATING REVENUE *(continued)*

Other trading revenue

Other trading revenue is recognised when the service has been delivered or in the accounting period in which the actual service has been provided. Other trading revenue includes revenue from production facilities, programme sales and multi feed service.

Significant financing component

TVNZ does not expect, at contract inception, that the period between the transfer of the promised goods or services from contracts with customers and when the customer pays for those goods and services to be more than one year. TVNZ applies the practical expedient in NZ IFRS 15 to not adjust the promised amount of consideration for the effects of a significant financing component.

Incremental cost of obtaining a contract

TVNZ has elected to apply the optional practical expedient in NZ IFRS 15 for costs to obtain a contract which allows TVNZ to immediately expense sales commissions (included under employee benefits) because the amortisation period of the asset that TVNZ otherwise would have used is one year or less.

4) OTHER EXPENSES

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

5) INCOME TAX

TVNZ is forecasting annual tax losses for the foreseeable future and as such no tax expense has been recorded.

6) RECONCILIATION OF PROFIT AFTER TAX TO NET CASH FLOW FROM OPERATING ACTIVITIES

	Six Months Ended 31/12/19	Six Months Ended 31/12/18	Year Ended 30/06/19
	\$000	\$000	\$000
Net profit	15,776	10,741	2,872
Adjustments for:			
Depreciation and amortisation (excluding programme rights)	10,268	9,411	19,331
Loss/(gain) on disposal of property, plant and equipment	0	0	18
Unrealised foreign currency losses/(gains)	360	1,690	1,628
Share of associate net results and provisions	52	22	33
Changes in assets and liabilities			
(Increase)/decrease in trade and other receivables	(2,872)	(2,580)	(7,205)
(Increase)/decrease deferred tax asset	0	1,268	1,051
(Increase)/decrease programme rights	(6,169)	12,979	11,638
Increase/(decrease) trade and other payables	16,865	(12,846)	(18,923)
Increase/(decrease) deferred income	(794)	(2,089)	(246)
Increase/(decrease) income tax payable	10	1,176	(1,796)
Increase/(decrease) provisions	0	(213)	(373)
Net cash from operating activities	33,496	19,559	8,028

Notes to the Consolidated Financial Statements *(continued)*

FOR THE SIX MONTHS ENDED 31 DECEMBER 2019 (UNAUDITED)

7) LEASES

Accounting policy

TVNZ has lease contracts for various offices which were classified as operating leases until 30 June 2019. Payments made under operating leases were charged to the income statement on a straight line basis over the period of the lease.

Upon adoption of NZ IFRS 16 TVNZ applied a single recognition and measurement approach for all leases except short term leases and leases of low value assets. From 1 July 2019 TVNZ recognises a right of use asset and a corresponding lease liability.

Right of use assets and lease liabilities arising from a lease are initially measured on a present value basis.

TVNZ recognises right-of-use assets at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets. In considering the lease term, TVNZ applies judgement in determining whether it is reasonably certain that an extension or termination option will be exercised.

In calculating the present value of lease payments, TVNZ uses its incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments.

The following table shows the movements and analysis in relation to right of use assets and lease liabilities, created on the adoption of NZ IFRS 16.

	Buildings \$000
Right of use assets	
Opening net book value 1 July 2019	0
Movement on transition	1,566
Depreciation for the period	(283)
Closing net book amount 31 December 2019	1,283
Lease liabilities	
Lease liability recognised 1 July 2019	1,566
Interest for the period	23
Lease payments made	(296)
Lease liabilities at 31 December 2019	1,293
Lease related expenses included in the income statement	
Depreciation	283
Interest on leases	23
	306

Notes to the Consolidated Financial Statements *(continued)*

FOR THE SIX MONTHS ENDED 31 DECEMBER 2019 (UNAUDITED)

8) ACCOUNTING STANDARDS

Effective 1 July 2019, TVNZ adopted NZ IFRS 16 *Leases*, the new standard requires a lessee to recognise a lease liability that reflects future lease payments and a right-of-use asset for virtually all lease contracts.

TVNZ has elected to apply the modified retrospective method of adoption. Under this method the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. TVNZ has therefore not restated comparatives and reclassifications and adjustments are recognised in the opening balance sheet.

TVNZ elected to use the transition practical expedient to not reassess whether a contract is, or contains a lease at 1 July 2019. Instead, TVNZ applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

Interest and depreciation charges on the lease liability and right-of-use assets replace the operating expenses that were incurred under NZ IAS 17. Note 7 provides further information on the impact on TVNZ of adopting NZ IFRS 16.

On transition TVNZ applied the following practical expedients:

- The use of hindsight to determine the lease term where the lease contains options to exercise rights of renewal out to the final term of the lease; and
- Non-capitalisation of leases that expire within twelve months from adoption date. Costs relating to these leases have been recognised in the income statement within premises and occupancy expenses.
- For comparative period analysis purposes, the adoption of the accounting standard has affected the following items of the income statement, balance sheet and statement of cash flows:
 - In the income statement 'finance costs' includes interest expense associated with lease liabilities, and depreciation expenses includes depreciation associated with right-of-use assets.
 - In the balance sheet a Right -of-use assets identifies the asset and the lease liability is included in current and non-current liabilities.
 - In the statement of cash flows lease payments are now split between principal repayments classified within financing activities and interest repayments classified within operating activities. Previously lease payments were included within payments to suppliers within operating activities.

The tables below provide further information in relation to the impacts of NZ IFRS 16 on the consolidated income statement, balance sheet and statement of cash flows at 31 December 2019.

Notes to the Consolidated Financial Statements *(continued)*

FOR THE SIX MONTHS ENDED 31 DECEMBER 2019 (UNAUDITED)

8) ACCOUNTING STANDARDS (CONTINUED)

Impact of NZ IFRS 16 on the income statement for the six months ending 31 December 2019

	Previous Classification \$000	NZ IFRS 16 Adjustment \$000	NZ IFRS 16 \$000
Premises and occupancy	(2,237)	296	(1,941)
Depreciation and amortisation	(9,985)	(283)	(10,268)
Interest expense	(60)	(23)	(83)
Profit for the period	15,786	(10)	15,776

Impact of NZ IFRS 16 on the balance sheet as at 31 December 2019

Right-of-use assets	0	1,283	1,283
Impact on total assets	0	1,283	1,283
Lease Liability - current	0	559	559
Lease Liability - non-current		734	734
Impact on total liabilities	0	1,293	1,293
Impact on net assets	0	(10)	(10)

Impact of NZ IFRS 16 on the statement of cash flows for the six months ended 31 December 2019

	NZ IFRS 16 NZD \$000
Interest paid (operating activities)	(23)
Lease liability payments (financing activities)	(273)
Total cash out flow from leases	(296)

Notes to the Consolidated Financial Statements *(continued)*

FOR THE SIX MONTHS ENDED 31 DECEMBER 2019 (UNAUDITED)

9) COMMITMENTS

	As at 31/12/19 \$000	As at 30/06/19 \$000
Programme rights	182,781	104,397
Operating leases	64	1,880
Property, plant and equipment and software	236	420
	183,081	106,697

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

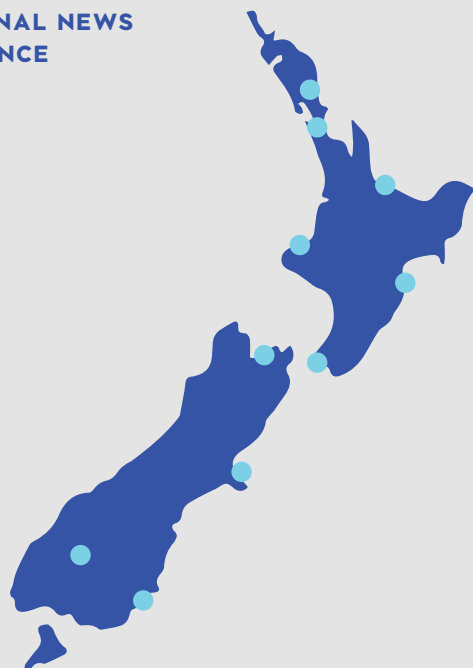
10) CONTINGENT LIABILITIES

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

11) EVENTS AFTER THE BALANCE SHEET DATE

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

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