HUGO*vision*

Assessing the economic and political environment in New Zealand

August 24 2018 | Confidential to HUGO members

A case of the vapours for all parties — Page 2

All four main political parties are experiencing different cases of the wobbles as we head towards spring. Labour is masking how bogged down its major reforms are becoming with a string of populist announcements and PM Jacinda Ardern has yet to show a return to form after coming back to work last month. The apparent willingness of the Provincial Growth Fund to back projects dear to NZ First's ministers' hearts is becoming dangerously apparent, and the Greens remain internally fractious, despite some headline-grabbing wins of their own recently.

Bridges's leadership — Page 2

The belief, if not the proof, that the leak of Simon Bridges's national tour travel expenses was an 'inside job' is starting to erode the National Party leader's standing, as much because of his willingness to give the issue media oxygen as because of what it says about disunity in his caucus.

The return of TOP — Page 2

Geoff Simmons is a more personable, youth-attracting leader for The Opportunities Party than Gareth Morgan, but he will need to assert his leadership sooner rather than later. While he continues an extended OE, elements of the party appear to be opening discussions with new, potential major donors that could come back to haunt the party.

The politics of trees – natives vs pinus radiata — Page 3

The govt has made a surprising call by targeting 2/3 of the nearly $500m from the Provincial Growth Fund for tree planting at native afforestation. While politically more appealing than swathing the countryside in pine, native forests are much more expensive to establish and take far longer to mature. Their contribution to meeting carbon sequestration goals by 2030 will therefore be much smaller than exotic forest planting, increasing the size of NZ's fiscal challenge in meeting Paris climate change treaty goals.

Public sector productivity — Page 3

The Productivity Commission's final report on public sector productivity makes depressing reading and suggests the scale of the challenge is far greater than the reorientation envisaged by State Services Minister Chris Hipkins's reforms to shift focus from 'outputs' to 'outcomes'.

Fonterra's ructions play out on DIRA canvas — Page 7

Fonterra's big changes at the top – with both a new chairman and an acting CEO and a cancelled CEO search – are coinciding with the expected timetable for public consultations on its future structure and legislative arrangements under the review of the Dairy Industry Restructuring Act, key elements of which are timetabled to occur in the third and fourth quarters of this year.

Kiwi dollar – how low can it go? — Page 6

Plausible scenarios exist for a further depreciation of the NZD against the USD to perhaps as low as US63 cents, although the kiwi is expected to hold up against the Aussie dollar.

Text finalised August 24

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Fragile times

All four major political parties are showing signs of fragility as the winter wears on.

Labour's response to a wider sense of drift and a grumpy business sector has been a **string of recent populist announcements** – an MPs' pay freeze, axing public sector CEO bonuses, action on wheel-clamping, funding the cycleway across the Auckland Harbour Bridge and banning single use plastic bags (the latter two also claimed by the Greens). However, they do little to mask the sense that the administration is struggling with a combination of **slow implementation, unready policy, and pratfalls.**

There is no threat at all to Jacinda Ardern's leadership, but **the PM is less visible after returning from maternity leave and is facing mounting pressure to make substantive policy advances** to match rhetorical skills that play well to her base but may wear thin, especially if trade unions are seen to be exploiting the govt's labour relations agenda.

Whether justified and accurate or not, anecdote is rife among firms that unions have been throwing their weight around, demanding access to workplaces on the basis that the political tide has turned in their favour. That is stoking fears, particularly among small and medium-sized firms, about both less flexible workplace arrangements and **the potential for large public sector pay settlements to flow into higher private sector wage demands** than previously anticipated.

Whether firm profitability is strong enough to absorb such costs is less important than the impact of these fears on business sentiment.

The perception that NZ First is making too many policy gains is also hurting Labour, although **NZ First itself is in danger of reaching a high water mark for pork-barreling** with the nakedly political funding for three all-weather racecourses from the Provincial Growth Fund.

Labour is also in trouble on freshwater policy. Its antipathy to engagement with the Iwi Chairs Forum is political rather than practical and could lead sooner or later to court. Many of ICF members will have to be part of consultation on David Parker's proposed reforms, whether or not they wear ICF hats when they do so. Despite vowing that it wouldn't repeat the **self-inflicted damaged done by Parker's 'water tax' policy** before the last election, the govt is drifting into that territory again, with the same potential as the foreshore and seabed issue in the mid-2000s to wound Labour's recovering relationship with Maori voters. The **Maori Party is banking on such godsends for its revival**.

CEO Retreat 2019

Thank you to all who attended the CEO Retreat at Millbrook last week. We've had great feedback, with highlights including Simon Moutter's discussion of Spark's 'Agile' journey, Helen Clark's frank views on global politics, and the intersection of privacy and bio-ethics from Kings College London's Bronwyn Parry.

Next year's Retreat is already in planning and will be held at Millbrook from August 15 to 17. Mark your diary now!

Bridges misjudges the spending leak

After a reasonably sure-footed start, **Simon Bridges has let himself be spooked by the leak of the travel expenses** for his national roadshow earlier this year.

By allowing the issue to dominate the news agenda for several days, Bridges has played into the hands of whoever leaked the information. The forthcoming inquiry, led by Mike Heron QC, will only keep the issue alive, as will the latest reports alleging an anonymous appeal from the supposed leaker, a National Party MP. All this achieves is to **stoke speculation about whether his position is safe.**

An investigation that requires parliamentary colleagues and staff to make their computer files available is already hurting his stocks internally.

TOP – partner for National or Greens spoiler?

Rather than treat The Opportunities Party, which re-emerged this week under new leadership, as a potential 'blue-green' coalition partner, **National is primarily hoping it will assist with a vote-wasting strategy that could see it win 2% of the vote and pulling the Greens under 5%**. In that scenario, National would probably still need NZ First, although senior figures continue to dare hoping they can win outright as a single party. At the last election TOP competed for the same inner city vote as the Greens. However, its future is precarious. It is understood to be living off $100,000 from Gareth Morgan who has said he will donate no more. That is setting off an apparently uncoordinated scramble for funds from elsewhere. For example, some **elements from TOP are understood to be talking to Owen Glenn as an alternative funder, but the party's new leader, Geoff Simmons, knows nothing about that.**

He is in Europe at the end of a long overseas holiday, spending time in Germany and Finland over coming weeks to examine their education systems. Simmons is a useful antidote to Morgan's divisive, if newsworthy personality. He is smart, phlegmatic and telegenic, and noted in a recent article on the 2017 election that **"a delicate cocktail of money, inspiration and fun"** – and a willingness to work social rather than mainstream media to reach younger voters – is the key to electoral cut-through.

The politics of trees

Devoting two-thirds of govt-subsidised forest planting to native species is both unexpected and problematic for the initiative's capacity to help mitigate the multi-billion dollar carbon emissions liability the country is likely to face after 2030, and the cost of establishment.

Native forests are far slower-growing than mono-cultural pine plantations, so absorb far less carbon in their early years of growth. They are **also far costlier to plant** – native seedlings cost around $5 vs 50 cents for pine – and plantings cannot be monocultural. A variety of species is required and plant failure rates are higher than with pine.

It appears political considerations for backing this approach have included **sensitivity to a backlash against the aesthetic impact of swathing regional countryside in pine forests** and a belief that Maori landowners may favour permanent native forest over pine in areas where commercial harvest is unlikely – this being the main target of the nearly $500m of Regional Growth Fund money being put to the "billion trees" project.

The upshot is a significant short to medium term lost opportunity to sequester carbon quickly to help meet very challenging Paris Accord goals.

ETS implications?

Pressure is mounting on the govt to remove the price cap on NZ Units in the emissions trading scheme. Not only is a higher carbon price a spur to forestry planting, but the local price of carbon has risen strongly in recent weeks to trade within 50 cents of the existing upper limit of $25 a tonne. Climate Change Minister **James Shaw** raised the prospect of a highter cap in releasing the terms of reference for the long-signalled review of the scheme. While it is less pressing in the current environment, examination of a floor for carbon prices should not be ignored in this process, given the farcical prices NZUs reached when so-called 'Ukrainian credits' flooded the market.

Meanwhile, the Productivity Commission's final report on achieving a low carbon economy is due on Sept 4.

Change of heart on PGPs

Agriculture Minister Damien O'Connor got media mileage in Opposition by criticising the Primary Growth Partnerships and sought a review as one of his first acts as minister last year.

The results of the review, undertaken by former Banking Ombudsman, Deborah Battell, found the co-investment into primary sector R&D to be "a worthwhile public investment", with the result the initiative will continue, albeit under a different name.

The govt will **pool the PGP programme and the Sustainable Farming Fund** into a new $40m a year mechanism. The new **Sustainable Food & Fibres Futures** scheme adds environment and social benefits to the economic focus of the PGP programme. It's set to open in Oct although officials haven't settled on how it will work.

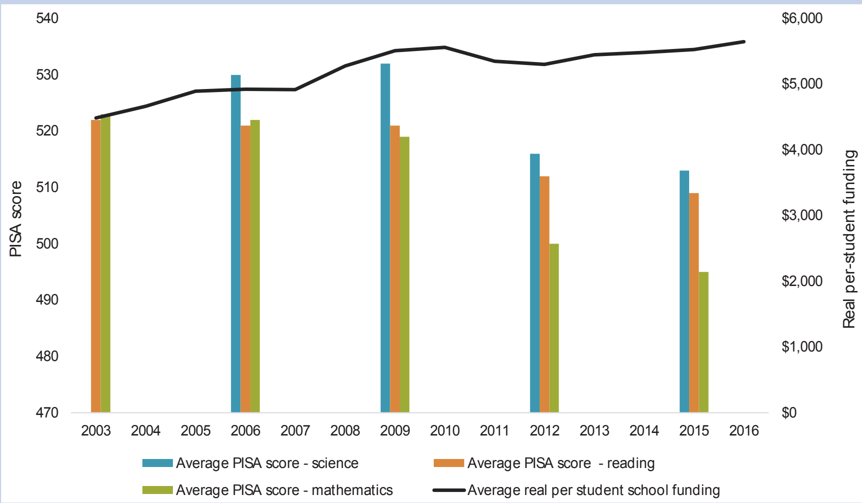
Deep antipathy to productivity improvement in public sector

The Productivity Commission's **final report on state sector productivity identifies a troubling array of deeply entrenched tendencies** that are the enemy of a more productive state sector.

"Some agencies do not ask the right questions or do not make good use of available information and politicians typically do not ask for productivity information," it says. **Segments of the public sector exhibit hostility to the concepts of "efficiency" or "productivity"**, arguing "such measurement efforts would be a distraction from their core business, or would have perverse impacts".

Public sector **culture is also inherently risk-averse and unwilling to embrace**

Real per-student school funding & average PISA scores, 2003–16



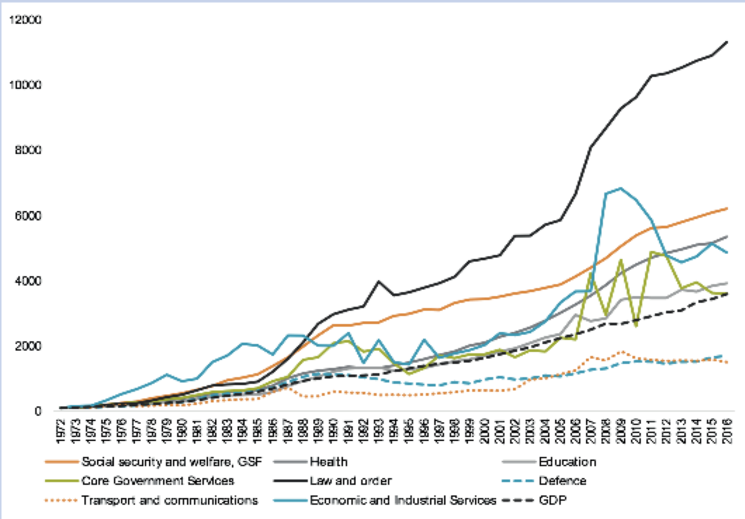
Source: Ministry of Education; Productivity Commission.

innovation, the report says, and are "closed to ideas from outside and poor at managing change".

Other key findings include:

- "mixed" quality of policy advice and "often ... very conservative approaches to commissioning services, leading to ineffective delivery and waste";
- funding models and rules that restrict govt agencies from being responsive to fast-changing needs, particularly technology challenges and changing requirements of personnel; and
- a budgetary system that doesn't reward productivity gains. Existing BAU spending takes the lion's share of new funding.

Indices of core govt expenditure, 1972–2016



Note: The large increase in "economic and industrial services" expenditure from 2008 is due to the introduction of KiwiSaver and associated subsidy costs.

The commission's **main recommendations look most unlikely to be adopted**, since they **resemble the competitive model the govt has rejected by rolling back the charter schools experiment.**

Creating a "separate avenue for organisations outside the public service to make budget bids" would expose ministers to "important sources of innovative ideas and processes" from NGOs and the private sector, which routinely face "hostile or unreceptive public agencies".

Some funding should be made available contestably to non-govt providers for "high impact initiatives".

Budget rounds should also include assessment of past performance, creating consequences for poor performance.

The **two graphics presented this week**, both taken from the ProdCom report, **portray starkly two areas of significant failing and massive spending pressure.**

The table on p3 showing the relative decline in student achievement despite steadily rising spending on the sector raises questions about the efficacy of a teacher pay round negotiated without the ability to reward the best teachers better than the worst.

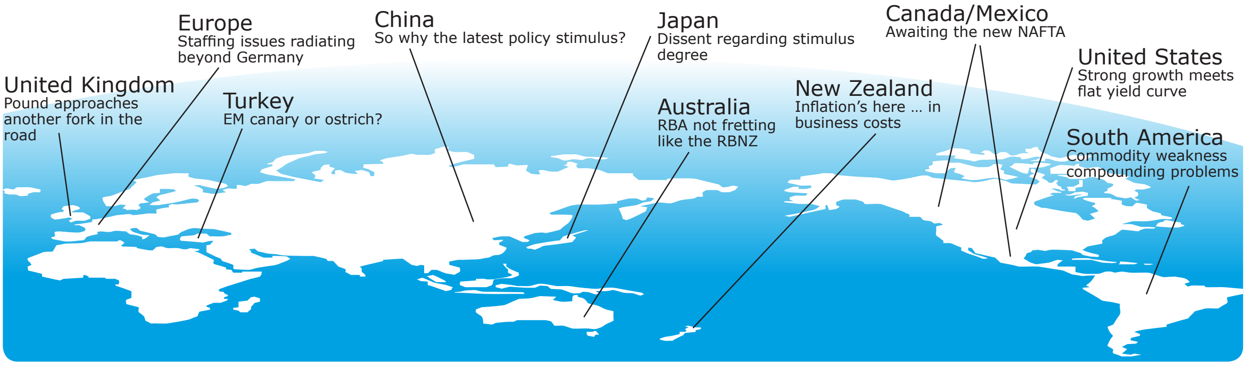
Likewise, the graphic on this page, showing the exponential growth in justice and prison spending is as clear a demonstration as any for the govt's desire to reform the criminal justice system.

Tertiary education sector moves

Financially distressed **Whitireia and Weltec polytechs received bailouts totalling $65m** and will almost certainly be governed by a commissioner.

A long-mooted **merger of Lincoln University and Canterbury University** appears to be moving forward after as many as **three universities are understood to have pursued the opportunity**.

The world at a glance



Moody's cites multiple sources of strength for NZ's Aaa rating

Moody's Investor Services has reaffirmed NZ's Aaa credit rating, based on "very strong fundamentals" across three core areas: economic, institutional, and fiscal flexibility.

It finds NZ has higher growth potential than peers in 2019 and identifies external risks as being the primary threats to the country's performance. It forecasts average growth in the OECD will slip slightly in 2019 but remain around 1.5%, while NZ has higher growth potential next year than in 2018. Moody's forecasts growth above 2.5%. The median growth rate among Aaa-rated peers is 2.4%.

The Moody's analysis also bolsters the argument that the govt's Budget Responsibility Rules could be relaxed without negative consequences, at least in theory. The govt has "room to manoeuvre" fiscally, the agency says.

Grass across The Ditch looking greener again

Net migration between Australia and New Zealand switched directions in January this year, with the number of people leaving for Australia exceeding the number of people coming from Australia. Changes in the number of people moving to Australia have historically had some of the biggest effects on population growth in NZ. Six years ago, the net outflow from NZ to Australia almost hit 40,000 people. More NZers moving overseas (usually to Australia) can quickly reduce net migration.

Infrastructure mission

Last week's infrastructure summit in Auckland may be looked back upon as a watershed moment of consensus on the need to stop talking and start acting on a step-change in NZ's capacity to deliver major infrastructure projects in a faster, more timely, better planned fashion.

The conference left the clear expectation that when an Urban Development Authority is created for Auckland, its wide-reaching powers will allow it either to accelerate or over-ride the most contentious parts of the city's Unitary Plan.

The govt's determination to harness private or non-Crown balance sheet capital – think NZ Super Fund and ACC as well as KiwiSaver funds – for light rail, housing infrastructure and water was also on display, although the affordability of the light rail project took a pounding from some quarters. If it doesn't stack up commercially, do not expect the Super Fund to remain interested.

Also significant was the announcement that the Chinese ambassdaor to NZ, Wu Xi, is collaborating with Infrastructure NZ to lead a **senior delegation to China, Hong Kong and Singapore in March 2019.**

Key topics will be road pricing, new cities development, master planning, integrated urban development at scale and value capture.

Trading partner growth

(2016-2017 actual; 2018-2020 Hugo and Consensus Forecasts)

Trading partners		GDP Growth (ann avg %)					CPI Inflation (ann avg %)				
	Weights %	2016	2017	2018	2019	2020	2016	2017	20187	2019	2020
China	26.2	6.7	6.9	6.6	6.3	6.0	2.0	1.6	2.1	2.3	2.3
Australia	20.3	2.6	2.2	2.9	2.8	2.6	1.3	1.9	2.1	2.3	2.5
United States	12.5	1.5	2.2	2.9	2.6	1.8	1.3	2.1	2.5	2.2	2.2
Japan	7.6	0.9	1.7	1.1	1.2	0.5	-0.1	0.5	0.9	1.1	1.6
Eurozone	6.7	1.8	2.5	2.1	1.8	1.4	0.2	1.5	1.7	1.6	1.7
South Korea	3.6	2.9	3.1	2.8	2.7	2.5	1.0	1.9	1.6	1.9	2.0
United Kingdom	3.3	1.9	1.7	1.3	1.5	1.6	0.7	2.7	2.4	2.1	2.1
Taiwan	2.6	1.4	2.9	2.7	2.4	2.1	1.4	0.6	1.5	1.3	1.1
Singapore	2.3	2.4	3.6	3.1	2.6	2.4	-0.5	0.6	0.7	1.4	2.0
Malaysia	2.3	4.2	5.9	5.3	4.9	4.8	2.1	3.7	1.4	2.1	2.9
Indonesia	2.1	5.0	5.1	5.2	5.3	5.2	3.5	3.8	3.5	3.8	3.9
Hong Kong	2.1	2.1	3.8	3.6	2.8	2.4	2.4	1.5	2.3	2.2	2.4
Thailand	2.1	3.3	3.9	4.3	3.8	3.2	0.2	0.7	1.2	1.5	1.6
Philippines	1.6	6.9	6.7	6.5	6.5	5.9	1.8	2.9	4.7	3.9	3.5
India	1.6	7.1	6.7	7.3	7.5	7.5	4.5	3.6	4.9	4.8	4.8
Vietnam	1.6	6.2	6.8	6.8	6.5	6.2	2.7	3.5	4.0	4.2	4.2
Canada	1.5	1.4	3.0	2.1	1.9	1.8	1.4	1.6	2.3	2.0	2.0
NZ Trading Partners	100.00	3.6	3.9	3.9	3.7	3.4	1.4	1.8	2.1	2.2	2.3
Forecasts for New Zealand											
Consensus		4.0	2.8	2.7	2.7	2.6	0.6	1.9	1.6	2.0	2.0
BNZ Forecasts		4.0	2.8	2.7	2.9	2.7	0.6	1.9	1.6	2.1	2.2
The World		2.5	3.2	3.3	3.1	2.8	2.4	2.5	2.9	2.7	2.8

The 'Super Rugby' 3-waters solution

Internal Affairs, which services Local Govt Minister Nanaia Mahuta, is currently working on a review of the way local govt will manage upgrades of the so-called three waters: sewage, stormwater and drinking water.

At least $2b of investment on ageing and under-built water services will be required to meet new freshwater policy standards and in the wake of the recommendations from the inquiry into the Havelock North drinking water contamination.

For small municipalities and regional councils, many with shrinking populations, the capital sums required are too large to be accommodated, making 3 waters the latest front in long-running attempts to rationalise local govt structures and funding.

Proposals in preparation envisage **amalgamation of local govt-owned water services around the country into five 'super-water' bodies**. For working purposes, these have been defined on super-rugby competition boundaries. A straw poll taken at the infrastructure conference, where more than 30% of the delegates were from local govt, found overwhelming support for the idea. The consequence would also tend to drive the de facto amalgamation of some of the very small local govt entities. However, **local communities are likely to be left to reach that conclusion on their own**, given how politically toxic centrally directed attempts to force amalgamation have been in recent years.

Kiwi dollar under pressure

Global and domestic forces have recently driven the NZD down to a 2½-year low. Globally, the persistent downward pressure on emerging market currencies has spilled over into a weaker NZD. A stronger USD, escalating US-China trade tensions, and concern about the global growth outlook, amongst other factors, have been in play. Domestically, business confidence has fallen to a decade-low, other activity indicators have softened and the RBNZ has adopted a more dovish-than-expected policy stance.

Looking ahead, **a further downward lurch towards US63c looks possible, but not inevitable**. Scenarios for some recovery are also plausible. The Aussie-kiwi cross-rate is expected to stay in the A90-95c range; the outlook for the GBP/NZD cross-rate is clouded by Brexit negotiations, making conservative hedging appropriate; while upward pressure on the Japanese yen looks likely to continue.

The Liberal Party's deep schism clears a path for the ALP

On deadline, it was still unclear whether Malcolm Turnbull would survive as the Australian PM and, if not, who would replace him. What is clear is that the Liberal Party has become riven by antipathy between its right wing and centrist wings, which also split down state lines.

Peter Dutton represents Queensland, which is inherently more conservative than the south-eastern states, which are Turnbull's natural home.

On that basis, earlier this week, veteran editor-at-large for The Australian Paul Kelly suggested that neither Dutton nor Turnbull (nor presumably Julie Bishop) could succeed at the next federal election because the schisms in the party now run too deep.

The ultimate effect of this "revenge of the conservatives" is to push Australia "to the left" and increase the prospects of a change of federal govt at the next election, due by Nov 2 next year.

Lessons for Simon Bridges?

The extent to which the Liberals' woes are an expression of the party losing touch with its conservative base will be watched closely by Simon Bridges. There are echoes of the Australian situation in the backlash against Bridges's support for legislation toughening up the NAIT system and, potentially, the embarrassing leak of his national tour expenses *(see item page 2)*. While Bridges's backing for the govt's Green Party-led climate change legislation has yet to backfire, that action could develop in the same way, given enough time and poor political management.

The spectre of Judith Collins as a Tony Abbott/ Peter Dutton figure on the right – almost certainly unelectable but determined and capable of wreaking havoc – is also relevant.

Widening trans-Tasman gulf

In the meantime, climate change policy can be added to the list of areas where increasingly stark differences are opening up between Australia and NZ. Turnbull's commitment to Australia's emissions reduction goals under the Paris Agreement became dependent on Labor as his own party split on legislating the targets. The forced withdrawal of that legislation provided the tinder for this week's in-fighting, fuelled by an internally contradictory National Energy Guarantee policy.

In these circumstances, movement on NZ's offer to take refugees from Nauru has become even more inconceivable than it was previously.

Fonterra

The spate of sudden changes at the top at Fonterra is dovetailing with the timetable for public consultation on the future of the cooperative.

Fonterra called off its global chief executive search and appointed long-serving insider **Miles Hurrell** as acting CEO following a decision by the incumbent **Theo Spierings** to leave immediately. Spierings has not been seen in NZ for some time and is understood to be recuperating from an illness in the Netherlands. The co-op's chairman, **John Wilson**, stood down last month for health reasons, to be replaced by **John Monaghan**, who initiated both the CEO search decision and announced a review of Fonterra strategy.

Earlier this month, Fonterra cut its 5c per kg/MS final payout for the 2017/18 season and announced no final dividend would be paid, pushing **Fonterra Shareholders Fund** unit to three year lows although **Standard & Poor's** swiftly confirmed the co-op's A-minus long term credit rating, saying its "operating environment remains fundamentally sound and that more consistent milk prices should naturally stabilise the group's credit metrics."

However, it expects Fonterra's debt to ebitda ratio will be "materially outside our downward threshold of 4 times for fiscal 2018" and said the rating will come under immediate downward rating pressure "unless we believe the group's credit metrics will rapidly improve over fiscal 2019."

The **Fonterra Shareholders' Council,** normally supportive of the cooperative's board and management, issued an unusually critical statement, saying current performance was "unacceptable".

These events have revived debate over whether the co-op's capital-constrained, farmer shareholder model is holding back its consumer brands/higher margin products business. However, Fonterra director **Scott St John** told the **NZ Shareholders Assn** meeting that ownership structure was "not on the table" for discussion in the strategic review.

Monaghan said separately that removing Fonterra's requirement to take all milk offered for supply was a key change the co-op required from the review of the **Dairy Industry Restructuring Act**.

According to the terms of reference for the review, a consultation document with options for change is due for release, submissions and analysis in Q4 this year, with govt decisions due in early 2019. The issue is highly politicised by: the antipathy of **NZ First's senior MPs** to Fonterra, which they accuse without evidence of plotting against NZ First in the lead-up to the 2017 election; Environment Minister **David Parker**'s determination to introduce either water or pollution taxes to curb dairy expansion; and Primary Industries Minister **Damien O'Connor**'s antagonistic relationship with the co-op when in Opposition.

Primary sector

A2 Milk more than doubled net profit to $196m in FY18 on wider margins and increased infant formula sales, particularly in China with formula sales revenue up 84%, at $724m, on 2017. The last year was marked by several new distributor relationships, including with **Fonterra** and South Korea's **Yuhan Corp** and extension of its supply arrangements with **Synlait Milk** out to 2023. It extended its deal to sell infant formula via **China State Farm** and began selling formula in Hong Kong, fresh milk in Singapore, and tested whole-milk powder sales in Vietnam. It plans a US$22m investment to boost US market sales but says the UK is "a challenging market to achieve scale".

Construction and infrastructure

Fletcher Building reported a $190m loss in FY18 after booking previously signalled losses of $660m on several high-profile vertical construction projects, but expects to resume paying dividends this year and says it would re-enter the 'Buildings and Interiors' sector under the right conditions. Excluding B&I, FBU had operating earnings of $710m, within the $680m-$720m range it forecast. It expects to complete divestment of its **Roof Tile** and **Formica** businesses in FY19. Group ebit, ex B&I and significant items, is expected to be broadly stable in FY19, bar land development earnings, which are likely to be lower.

Energy and Resources

Correction: The last edition of Hugovision incorrectly reported that Mercury chair Joan Withers's reappointment could "not be taken for granted", based on information from a senior govt source in the context of the govt's desire to take a 'new broom' to many boards of Crown-controlled entities. In fact, Joan Withers noted at her re-election in 2016 that she did not intend to seek re-election and is expecting to conclude her term at Mercury at the Sept 2019 annual meeting, having spent a decade on the Mercury board.

The timetable for this year's onshore oil and gas exploration **Block Offer** appears to be slipping as the govt seeks protection from potential legal challenges stemming from its April decision to issue no further offshore exploration permits.

OMV will know later this year whether to proceed with further drilling in the Manaia structure south-west of the offshore Maari oil field, NZ's largest oil producer. OMV had been looking at options to start production from the Moki reservoir at Manaia, or to increase production from the deeper Mangahewa formation there. It has opted for the latter and should know in the Dec quarter how to proceed.

Contact Energy reported lower earnings on both an npat and ebitdaf basis, reflecting low hydro storage and retail competition. Ebitdaf for the year to June 30 was down 4% to $481m, although total dividends for the year, at 32cps, are up on 26cps in the prior year. Contact has also rebranded for the third time since 2007, when it abandoned the conservative livery it adopted after its creation as an SOE in 1996.

Mercury says 20%-owned **Tilt Renewables** has the best pipeline of development options in Australia's renewables market and Mercury's involvement avoids taking years to build Australian opportunities. Mercury also expects to learn more about wind and utility-scale solar development as Tilt's projects are developed. **Infratil** is buying out Tilt in partnership with Mercury.

Meridian plans to return another $250m to shareholders in a two-year extension of the firm's capital management programme, to end in 2022.

Bathurst Resources has been ordered to pay L&M Coal a US$40M performance payment for production from its Buller operations after a High Court application from L&M. Bathurst plans to appeal, arguing the payment was intended to relate to exported coking coal from its as-yet undeveloped Escarpment mine.

Telecommunications, entertainment and media

Spark's restructuring programme, to introduce 'Agile' systems, has cut $89m from its wage bill, with savings of another $30m expected. The programme's one-off costs were the prime cause of annual profit falling 7.9% to $385m and Spark expects flat underlying ebitda in 2019 of $1.03b to $1.06b. Spark maintained its final dividend by drawing down more debt but doesn't expect to do so again, with shareholder returns covered by earnings growth.

Vocus NZ boosted earnings 8% to $61.3m on a 4% increase in revenue to $364m.

Fellow minnow telco **TeamTalk** continues to withhold dividends to allow investment in a new digital radio network and upgrades to fixed line assets in the Auckland and Wellington CBDs.

NZ Herald publisher **NZME** cut its interim dividend to 2cps and is assessing its capital structure. The media group will launch paywalled content, charging for indepth analysis and opinion online late this year. First-half profit halved to $3.7m on a 3.7% decline in sales to $185.7m as weak confidence affected advertising. Earnings were below expectations and the shares sank more than 10% on the day.

Sky TV took a $360m writedown on the value of its goodwill to $1.07b, reflecting ongoing subscriber losses. That pushed the company to a $240.7m loss for the year to June 30. Excluding the writedown, underlying profit increased 2.6 percent to $119.3m.

State-owned **TVNZ** reported a better year, holding total revenues steady for the first time since 2012, at $318.5m and reporting an ebitdaf uplift of 58.6% to $24.6m for the year to June 30, partly reflecting writedowns the previous year washing out of the numbers. Online streaming picked up momentum, although linear TV still typically attracts 10x more viewers daily than TVNZonDemand. Advertising demand softened in recent months, but the share of total ad spend going to traditional TV increased.

Tourism, transport and logistics

Air NZ's pre-tax earnings, which it uses for guidance, were $540m in the year to June 30 versus $527m in the prior year. The company had expected to improve on 2017 earnings based on an average jet fuel price of US$60 per barrel. The price, however, increased 25% to US$75 per barrel. Uncertainty about the year ahead is reflected in a $100m guidance range for underlying earnings before tax of $425m to $525m, based on current market conditions and assuming an average jet fuel price of US$85 a barrel.

Retail

TradeMe declared a $100m special dividend at 22cps to go with a 10.5cps final dividend as it reported a 3.9% increase in NPAT at $96.6m for the June 30 year. Motor vehicle listings became the largest segment, with 12.7% growth in revenues underpinned by a 41% rise in dealers listing on the platform. The company has taken a small, non-material stake in online funds management self-service platform **Sharesies**.

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