ANNUAL REPORT
NZME LIMITED

For the year ended 31 December 2016

Contents

This annual report is dated 31 March 2017
and is signed on behalf of the Board of Directors by:

Sir John Anderson
Director

Carol Campbell
Director

FY16 Results Summary

STATUTORY NPAT

$74.5m

▲ 74% FY15 $42.9

TRADING REVENUE[1]

$407.4m

▼ 6% FY15 $433.0m

TRADING EBITDA[1]

$71.9m

– 0% FY15 $71.8m[2]

PRO FORMA NPAT[1]

$27.8m

▲ 1% FY15 $27.5m

PRO FORMA EPS[1]

14.2cps

FINAL DIVIDEND FULLY IMPUTED

6.0cps[3]

SCHEDULED FOR PAYMENT ON 28 APRIL 2017

FULL-YEAR DIVIDENDS 9.5cps

(1) Trading Revenue, Trading EBITDA, Pro forma NPAT and Pro forma EPS are non-GAAP measures that are explained and reconciled on pages 38-43 (2) The FY15 NZME segment result in the APN FY15 financial statements was $74.9m, this has been adjusted for $3.1m of standalone costs incurred in H2 16 to provide a like-for-like comparison. (3) A supplementary dividend of 1.06 cents per share will be payable to shareholders who are not tax resident in New Zealand and who hold less than 10% of the shares in NZME Limited.

Firm Foundations

In our first full-year result since the listing of NZME on 27 June 2016, I am pleased to report the company generated stable earnings from its integrated media and entertainment business, despite the challenges faced in advertising markets. This result has enabled the Board to declare a fully-imputed final dividend of 6.0 cents per share to be paid in April, making 9.5 cents per share in dividends for the full year.

The creation of NZME brought together major New Zealand Publishing, Radio and e-Commerce businesses into a single and unique multi-platform media company. NZME is now an audience-centric business focusing on the pillars of News, Sport and Entertainment.

“With exceptional content and distribution capability, we are uniquely positioned”

We are very proud to be a pure New Zealand integrated media and entertainment company, with local management that understands our audience of 3.2 million Kiwis[1]. Bringing Print, Radio and Digital together under a single roof allows us to leverage revenue opportunities from cross-platform advertising and achieve significant operational and cost efficiencies.

Following completion of the integration, we now have a more efficient and agile business. We aim to take advantage of exciting new opportunities to entertain and connect New Zealanders and engage audiences for our advertising customers.

Our focus on business performance, investment in people and talent, and delivering efficiencies has enabled our company to better the market in Print advertising revenue decline and Digital advertising revenue growth[2]. In addition, our total audience grew 5% in FY16[1].

Given challenging advertising markets, in which some segments of advertising declined by more than 15%[2], we were pleased that we held Trading[3] EBITDA stable on the previous year.

While Trading[3] revenue declined 6% for the year, the improvement in the second half was encouraging, suggesting our initiatives are starting to bear fruit. In delivering stable EBITDA, cost reduction was important and will continue to be a focus for NZME and, indeed, the whole industry.

As we face an increasingly fragmented media market, the proposed merger with Fairfax New Zealand (“Fairfax”) remains a priority. The transaction if approved will underwrite the competitiveness of New Zealand content generation and delivery. As part of the process to obtain regulatory approval for the transaction, we have made extensive submissions and participated in a conference with the New Zealand Commerce Commission (“NZCC”). The NZCC is due to respond with a final determination by 2 May 2017.

If the determination is positive we will seek to complete the transaction as soon as practicable. We will consider our options if the merger is not approved.

NZME’s mission is to be at the centre of what New Zealanders want by sharing great stories, entertaining, engaging and connecting with all New Zealanders. Our company has highly experienced, dedicated and talented management and staff, ably led by CEO Michael Boggs who joined NZME in March 2015 and was appointed as CEO in April 2016. They continue to create and deliver premium innovative content and experiences to New Zealanders.

After working in a senior finance capacity with NZME in FY16, we were very pleased to see Mike Moran appointed as Chief Financial Officer in February 2017. Previously a Partner at Deloitte, Mike has more than 15 years of international experience in assurance and advisory.

The Board would like to thank our employees, who in the last 12 months have worked extremely hard to complete the demerger from APN, a complex business integration, and our listing on the stock exchange. These processes have been achieved whilst continuing to build and excite our audience in order to grow the business and deliver solid financial performance and returns for shareholders.

“Our focus has enabled your company to better the market”

With exceptional content and distribution capability, we are uniquely positioned to take advantage of many opportunities for realising the shareholder value we see in this exciting and dynamic industry.

Sir John Anderson
Chairman

(1) Nielsen CMI, November fused database: Last twelve months Q4 15 – Q3 16 (population 10 years +). Based on unduplicated weekly reach of NZME newspapers, radio stations, and monthly domestic unique audience of NZME’s Digital channels. (2) PwC NPA Quarterly performance comparison report Q4 2014 – Q4 2016. IAB / PwC New Zealand Q3 2016 Interactive Advertising Spend Report; Digital excluding search and directories, and social media (NZ market only). (3) The FY15 and FY16 Statutory Results are not reflective of the NZME business going forward due to the impact of the demerger, tax payments, business closures and divestments. Trading EBITDA and Pro forma NPAT more appropriately reflect the company in its new structure. Reconciliation between Statutory, Trading and Pro forma financial measures can be found on pages 38-43.

Audiences Captured

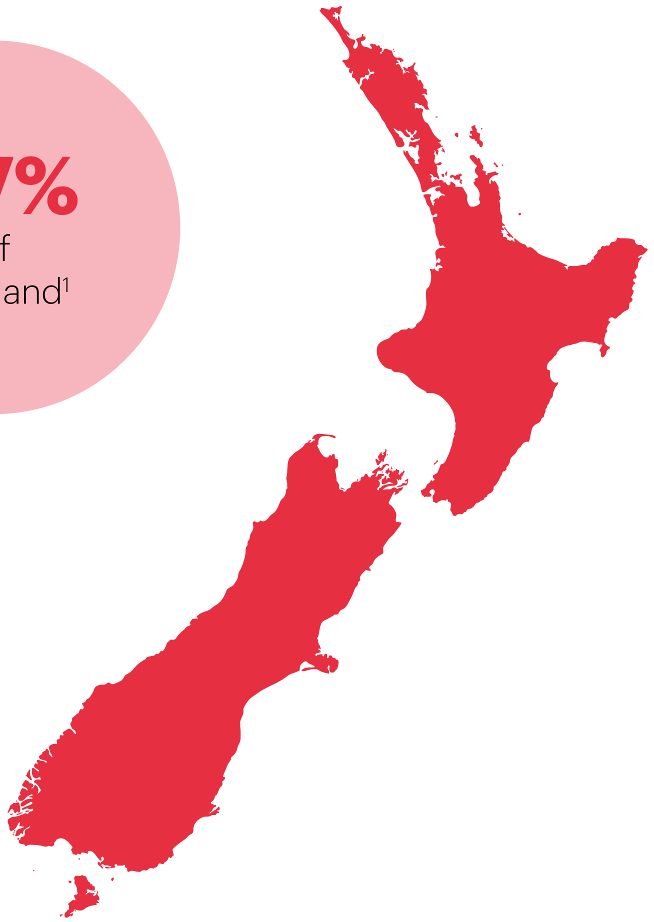
On a typical day, by 9am **73%[1] of New Zealanders** have read, watched, listened to, or otherwise engaged with NZME.

NZME REACHES:

84%
of the
North Island[1]

87%
of
Auckland[1]

68%
of the
South Island[1]



Our national and local presence allows us to offer advertisers broad access to their target markets.

(1) Nielsen CMI, November fused database: Q4 15 – Q3 16 (population 10 years +). Based on unduplicated weekly reach of NZME newspapers, radio stations, and monthly domestic unique audience of NZME's Digital channels.

Business Transformation Continues

Since joining NZME in March 2015, I have driven the ongoing business transformation to become an integrated media and entertainment business and we have continued to realise the efficiencies created by this change. We believe there is further significant medium term opportunity to deliver synergies from this multi-platform approach.

While we will never be comfortable with a revenue decline we were pleased to deliver a stable Trading[1] earnings outcome for shareholders in FY16 given the challenges faced in advertising markets.

Trading[1] EBITDA, which we think reflects the company today, was stable compared to FY15. A 6% reduction in costs contributed to this result, primarily driven by business transformation and integration.

Trading[1] revenue was down 6%, but with an improved performance in the second half, reflecting strong growth in Digital and a slowing rate of decline in Print and Radio. We performed better than the industry in several of our key advertising markets.

My executive team and I have established a clear strategy for NZME. We have a framework for growing our business that focuses strongly on financial performance but also fosters innovation.

At the time of our interim results in August last year, we identified seven key priorities that we believe will deliver improved shareholder value. Already we have made good progress on these priorities by growing audience, slowing the decline in Print revenue, returning Radio agency revenue to growth, driving strong Digital revenue growth, achieving major cost savings, developing talent and progressing the proposed merger with Fairfax.

NZME grew audience reach by 5% in the year across its news, sport and entertainment brands to 3.2 million Kiwis[2]. Digital audience growth was particularly strong at 19%[2] in the year, driven by successful product development and initiatives. In a typical day, by 9am 73% of Kiwis have read, watched, listened to, or otherwise engaged with NZME[2].

We continue to transform NZME to lift performance, grow audience and optimise our products. In Print we stabilised circulation and grew readership with strategies such as the relaunch of the Herald on Sunday lifestyle magazine, to focus on Travel, a stronger commercial proposition. The New Zealand Herald is the country's leading newspaper and our most important Print masthead. We are focussed on extending its readership and ensuring it remains the number one choice for Print readers and advertisers.

In Radio, improvements in the agency sales model resulted in a return to agency revenue growth. Agency sales are via The Radio Bureau, a joint venture with Mediaworks, and our new Direct Agency Sales team, which has shown considerable growth year on year.

We continue to focus on direct revenue growth and launched a new breakfast show for The Hits in Auckland, with high profile talent; Sarah Gandy, Sam Wallace and Toni Street in February this year. Newstalk ZB has the largest share of any commercial station in New Zealand[3], showcasing New Zealand's number one breakfast host, Mike Hosking. We are looking to replicate the success of our strongest stations across the portfolio.

Our fantastic home-grown content has been very well received and helped us lift video streams within NZME's platforms by 69% in the last year[4], which is important as it's one of the strongest areas of growth in Digital advertising. This has contributed to strong Digital revenue growth of 24%[1] in the year, largely driven by mobile and video growth across nzherald.co.nz, supported by exciting new platforms such as watchme.co.nz.

We continue to transform NZME to lift performance, grow audience and optimise our products

Following the success of NZ Herald Focus (news video show) in our digital division, NZ On Air has funded production of our new regional video service, Local Focus, and our first long-form documentary video "Under the Bridge".

We will also launch a redesigned nzherald.co.nz website in 2017. The new site will utilise the highly regarded Washington Post content management system and other publishing tools. This development will move us from an old-world, desktop-driven, text-first platform to a mobile and social-first, multimedia, agile, future-proof platform.

We have delivered very strong growth in our social network following, which brings over 40% of our audience to our platforms, reinforcing our content branding. We have also implemented a data lake, consolidating our registered user databases across our platforms, to offer new cross-platform content and audience leverage to serve and grow our audience.

NZME aims to be at the centre of what New Zealanders want by sharing great stories, entertaining, engaging, and connecting all New Zealanders. To achieve this we are focused on the four medium term pillars of the business: our audience; revenue; being agile, and our people.

Looking forward, we aim to improve shareholder value through further growing audience reach, retaining revenue in print and ensuring radio returns growth. We want to grow new revenue streams across the company whilst managing costs and capital well. Developing our people and talent will remain fundamental to our success.

We are determined to make further progress in these areas in the current year as we see them as key drivers of shareholder value.

I would like to echo the Chairman's comments about the efforts of our dedicated employees. It has been a year of enormous change for the industry and NZME. Management and staff have responded to this challenge, implemented our plans and delivered solid operating and financial outcomes. This is a testament to their hard work and diligence under sometimes testing circumstances.

I also thank our amazing New Zealand audiences, our suppliers, business partners, advertising customers and shareholders for their continuing support.

With our unique multi-channel, integrated media offering combined with some of New Zealand's leading brands and talent, we have an exciting opportunity ahead of us.

Michael Boggs
Chief Executive Officer

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NZME at the Centre of What New Zealanders Want

FOCUSED ON

Audience
Audience-centric, content-driven media business

Revenue
Customer-focussed revenue business

Agility
A future-focused, innovative and agile business

People
Home of the best talent

HOW WE'RE DOING IT

Listening
To our customers and providing unique solutions

Simplifying
How our customers engage with us and each other

Expanding
Our content and delivery to reach more New Zealanders

Leveraging
Our brands, data capabilities and integration

Developing
Innovative ways to connect buyers and sellers

Enabling
The best people with the right tools

INITIATIVES

- Leverage insights to maximise audience targeting and engagement
- Enhance regional content and expand Digital verticals
- Proactively optimise existing products, e.g. new Radio breakfast shows
- Invest in new revenue streams
- Launch new content management system and redesigned nzherald.co.nz
- Leverage data to maximise Digital revenue
- Develop our leadership, talent, Digital, social and data skill-sets
- Simplify and enhance our sales and customer relationship systems

Sharing great stories, entertaining, engaging and connecting all New Zealanders.

New Initiatives & Development

- **Create Me** – maximises the integrated, multi-platform sales proposition, delivering revenue growth via Video, Branded Content, and Experiential products.
- **WatchMe** – unique video-on-demand platform showcasing NZ video content, utilising influential talent.
- **NZ Herald Focus** – Digital video news show that meets the growing consumer demand for mobile video content.
- **Driven Digital platform** – user generated classifieds and auto listings, consistently hosting over 20,000 listings.
- **Herald Homes App** – enhances NZME's real estate Print assets with direct access to additional Digital content.
- **KPEX** – joint venture trading desk for Digital advertising, between four New Zealand media businesses (NZME, Fairfax NZ, Mediaworks and TVNZ).
- **Ratebroker.co.nz** – a joint venture mortgage, finance and insurance aggregator platform enabling consumers to easily purchase these and other future services directly online.
- **RestarantHub.co.nz** – a joint venture table management and online restaurant booking platform.
- **Chinese New Zealand Herald** – a joint venture which has created a Chinese language version of nzherald.co.nz.
- **Events** – NZME ran 25 events in FY16, including the new Live Well Festival and the PwC Herald Talks series.
- **iHeartRadio** – new App launched in early 2017 with a registration wall and enhanced user functionality.
- **iHeart concerts** – held in FY16 included Broods, Delta Goodrem, Temper Trap, Cold War Kids, 5th Harmony and Shihad.
- **WTV, Humm FM and Radio Wanaka** – expanded Radio via exclusive commercial Radio partnerships.

Performance You Can Count On

Since joining NZME I have been focused on providing value to our shareholders and we have delivered a stable result for the company, allowing us to pay a total dividend of 9.5 cents per share for the year.

As has been widely described, the media sector faces significant headwinds in several advertising markets, particularly Print advertising, which represented 30% of our revenue in FY16. However, other segments, such as Digital advertising, are growing strongly.

As the CEO and Chairman have detailed, NZME's strategy is to maintain our traditional sources of revenue and pursue growth in Digital, while at the same time managing costs to maximise efficiency and support returns.

"We have a prudent and sustainable capital structure that will support implementation of our strategy"

Maintaining a strong and flexible balance sheet and effective capital management underpins our ability to manage growth and risks and deliver attractive shareholder returns.

We believe we made significant progress on this strategy in FY16. Trading[1] EBITDA was stable compared to FY15, supported by strong growth in Digital revenue and a 6% reduction in costs, primarily driven by business transformation and integration.

Group Trading[1] revenue declined 6% in the year, reflecting strong growth in Digital and a slowing rate of decline in Print and Radio. The revenue decline slowed in the second half of the financial year as a number of our initiatives began to take effect. After adjusting for the impact of divestments and business closures, Pro forma[1] Group revenue declined 4%.

Given the significant changes to our company structure brought about by the demerger, there is material divergence between our statutory reported financial measures, and those that reflect NZME as it stands, which we refer to as our Trading[1] result.

On pages 40-41 you will see the reconciliation between statutory GAAP measures and our Trading[1] result. We think the Trading[1] result more appropriately reflects the company's performance. Page 42 shows the reconciliation of Pro forma[1] results, which is essentially the Trading[1] result adjusted for standalone costs yet to be incurred, and earnings from divested businesses in FY16.

One of our key priorities has been to slow the decline in Print revenue and, in this area, we are having some success. Trading[1] revenue in Print declined 9%, however, adjusting for divestments and business closures, our Pro forma[1] Print revenue was down only 6% to $237.7 million. This represents 59% of Group Pro forma[1] revenue. Given the reported 15% decline in the print advertising market[2], we are encouraged by this result.

Radio and Experiential contributed 28% of FY16 NZME Trading[1] revenue, and at $114.8 million was 4% lower than FY15. Radio agency revenue returned to growth in the second half as ongoing benefits of an improved agency sales model were realised.

Direct Radio revenues were maintained in Auckland, however some regional markets remain challenged. Returning total direct Radio revenue to growth will be a focus for FY17.

Other Radio revenues, including iHeartRadio and NZME Events, grew 3% year-on-year to $6.2 million in FY16. Further growth is expected in FY17 with the expansion of the PwC Herald Talks speaking series to Wellington and Christchurch, and expanding the Viva Sessions. A new iHeartRadio app was launched in Early 2017 with a registration wall, enhanced user functionality and improved advertising targeting.

NZME achieved strong Digital revenue growth of 24% in FY16, against market growth of 16%[3], largely driven by mobile and Video advertising revenue growth. Total programmatic revenue grew 65% year-on-year driven by the performance of KPEX, a joint venture trading desk for Digital advertising, between four New Zealand media businesses (NZME, Fairfax, Mediaworks and TVNZ).

E-Commerce revenue from GrabOne decreased 19% in FY16, however the decline softened in H2 for 2016 due to continued focus on improving user experience, and evolving from a pure "daily deals" site to an "always-on" model.

Continued focus on cost management led to a 6% reduction in costs year-on-year. The transformation and integration of Publishing, Radio and e-Commerce was the primary driver of the reduction in people costs. We also made important savings in print and distribution costs, agency commissions, which are in-line with the revenue decline, and marketing.

We continue to explore future cost-saving opportunities and are currently implementing a new CRM system, along with new planning, booking and scheduling tools, to help us better understand our customers and better manage the sales pipeline. This is not only expected to reduce people and content costs, but also drive revenue growth across platforms.

We are also in the process of improving our Print plant technology, which will reduce both paper and ink waste as well as people cost due to enhanced automation of the printing process. Further savings are likely due to the instalment of the Washington Post software as the time to produce a piece of content will reduce significantly, touch less hands, and be easier to use across our assets without incurring incremental cost.

Capital expenditure requirements are relatively low. We spent just under $15 million in FY16 and we expect to spend a similar amount in the current year. This allows us to maintain and upgrade our systems and invest in content and some new business initiatives.

Pro forma[1] EPS was 14.2 cents, supporting the final dividend of 6.0 cents to be paid on 28 April 2017. The 9.5 cents declared for the year is in line with dividend policy of 60-80% of Pro forma[1] NPAT.

Net debt as at 31 December 2016 was $95.9 million with an interest rate of 3.8%. The company has healthy cash flow, sound liquidity and undrawn bank facilities of $48.0 million. We have a prudent and sustainable capital structure that will support our business needs and implementation of our strategy.

Mike Moran
Chief Financial Officer

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ZM
Fletch, Vaughan
+ Megan
6AM – 10AM WEEKDAYS
RADIO
HAURAKI
MATT HEATH
JEREMY WELLS
6AM – 10AM
WEEKDAYS
NewstalkZB
MIKE HOSKING
NZ'S NUMBER ONE
BREAKFAST HOST[1]
6AM - 8:30AM WEEKDAYS
(1) Gfk Radio Audience Measurement
Total NZ 2/2016 All 10+ Mon-Fri
6am-8.30am, % share
Stace
& Flynny
3PM – 7PM WEEKDAYS
THE HITS
flava
THE FLAVA BREAKFAST
WITH SELA, PUA & TARSH
THE WAKE UP CALL - WEEKDAYS 6-10AM

Our People

Whether they're fronting our brands, selling our advertising products, driving new initiatives, or helping to run our business, it's crucial our people share a common purpose.

We work hard to ensure everyone at NZME understands and is aligned with our company's strategic goals (what needs to be achieved) and our values (how these should be achieved).

Our senior leaders are tasked with translating our strategic goals and providing support to ensure all employees are engaged. As part of this, our people have set KPIs that are aligned to the strategic goals and our NZME values of being Connected, Curious and Confident.

OUR VALUES

Our people live and breathe our values of being "Connected, Curious and Confident". As an incentive we've set in place a dedicated values-based reward and recognition initiative – the three-tiered Reward Me programme. A "Shout Outs" nominations process allows staff to acknowledge their colleagues, while each quarter we gather to announce our "NZME Champions", recognising those who have gone above and beyond in displaying our values. Finally at the end of the year we crown a select few who have consistently excelled in demonstrating our values – our "NZME Legends".

BE CONNECTED

Before we act, we seek to understand:

- We engage the right people
- We share ideas
- We listen carefully to our colleagues, audiences and customers
- Once we've made a decision, we all pull together to get it done

BE CURIOUS

Then we dig deeper and ask questions:

- We get to the heart of the matter
- We live and breathe it. We take ownership.
- We try new things and new ways of working
- We see bridges not barriers, and where necessary challenge the status quo
- We go the extra mile to discover
- And we make it fun

BE CONFIDENT

In delivering what we do, we boldly step up, speak out and give it our best shot:

- We live outside our comfort zone
- We tell it like it is. What we say, we do.
- We keep it simple and get to the point
- We solve any issues at the source
- We persevere to make it happen

HEALTH AND SAFETY

In 2016, we transformed the way we approached safety and wellbeing across NZME with the introduction of our two programmes Safeguard Me and Better Me.

Our existing paper-based safety system was replaced with a comprehensive online tool allowing people to report safety incidents digitally regardless of their location.

We conducted a comprehensive risk analysis across each department, enabling us to introduce more effective safety and risk management practices. As a result we achieved a 20% decrease in injuries requiring medical attention.

NZME is proud to celebrate the achievement of the Tertiary Level rating under the Accident Compensation Corporation's Workplace Safety Management Practices Auditing Standards, meaning our business operates a continuous improvement framework for workplace health and safety management.

Additionally Safeguard Me and associated leadership training was rolled out, upskilling over 2,000 leaders and employees on recent changes in Health and Safety Legislation and the Safeguard Me reporting system.

We also welcomed Better Me, NZME's wellness program focused on giving our people the tools to maintain a healthy lifestyle – both inside and outside of work. Last year Better Me included a host of New Zealand's most inspiring health and wellness professionals coming in and sharing their views on how best to maintain great health and wellbeing.
In 2017 we plan on keeping up the pace with key initiatives including role-based targeted wellbeing programs, fatigue management and an even bigger year of Better Me programs.

WELLNESS WEEKS

The Wellness Committee hosted two wellness weeks: one in April 2016 and another in October 2016.

A variety of guest speakers shared simple and achievable personal strategies that our people could incorporate into their day-to-day lives to help improve their financial, mental and personal health.

We also shared the personal success stories of NZME people who had made lifestyle changes that impacted positively on their own overall health and fitness.

Outside of Auckland, our network of wellness representatives helped establish and personalise Wellness Week as appropriate for their sites, including a swim challenge, a walking bus through a local art exhibition, blood donations and providing free healthy snacks throughout the week.

DIVERSITY

At NZME we believe that everyone should be free to be themselves.

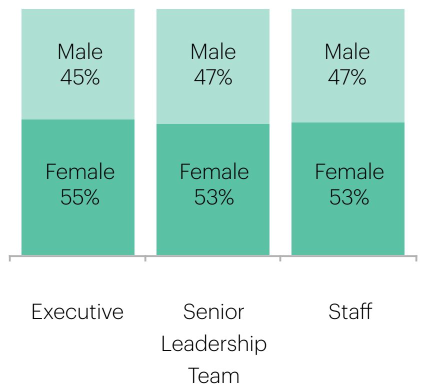
We believe that a diverse workforce is essential for us to deliver our strategic objectives. For NZME, diversity means the competitive value in the difference of our people in relation to gender, ethnicity, sexual orientation, age, disability, religion or cultural background.

We have a formal diversity policy that is available to our people and the public on our website and in December 2016 we received 72 nominees to join our new Diversity Committee. We are signed up and in the certification process for Rainbow Tick, to be an employer of choice for people who are LGBTTI (lesbian, gay, bisexual, transgender, takatāpui and intersex).

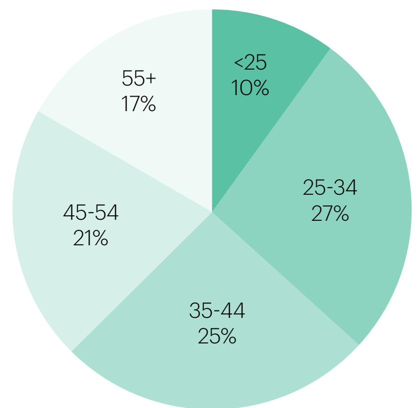
NZME signed up as a Mayor's Youth Employment Pledge Partner in Auckland to encourage youth employment. We had stands at JobFest (where over 300 youths registered for jobs at NZME, over 40 left their CVs, and six participated in face-to-face interviews) and Festival of the Future (where we interviewed over 30 prospective candidates).

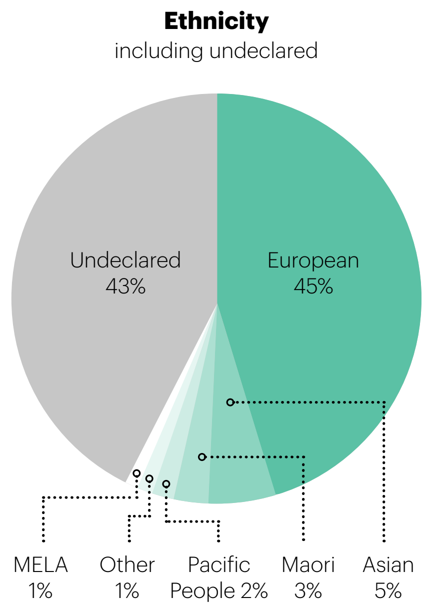
The charts below and over the page demonstrate our demographic breakdown as at 31 December 2016:

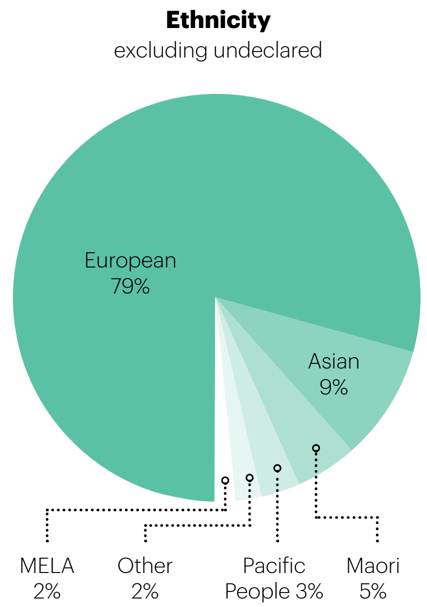
Gender / Level

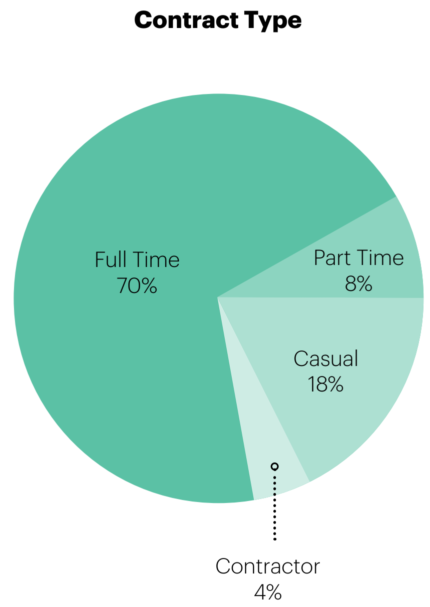


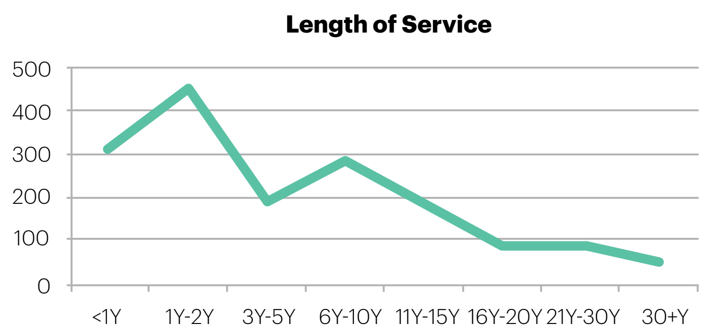
Age Group











2016 AWARDS

NZME is proud to be the home of New Zealand's best talent. We have several opportunities each year to celebrate our people and many of our colleagues are put forward to be recognised for their efforts locally and internationally – from the Canon Media Awards, the Radio Awards, PANPA, INMA, Pride in Print, to the TVNZ Marketing Awards.

In 2016, NZME won the Media Business of the Year award at the CAANZ Beacons Awards.

We also had a record number of 38 finalists at the Canon Media Awards, where we took home 20 awards, including Newspaper of the Year – 30,000-plus (The New Zealand Herald), Photographer of the Year (Stephen Parker), Best Editorial Campaign or Project (The Forgotten Millions) and Best Sports Site (nzherald.co.nz/sport).

In 2016 we also won 21 awards at the NZ Radio Awards, including Station of the Year (Newstalk ZB), The "Blackie" Award (Hauraki Breakfast) and Best Community Campaign (NZBCF Pink Star Walk).

Our Communities & the Environment

We support a safe community and in 2016 we championed a number of issues across our network – notably the #StopTheHate cyberbullying and #BetterThanThis domestic violence campaigns.

The New Zealand Herald also spearheaded a campaign for World Vision called The Forgotten Millions which reported the heartbreaking stories from those affected by the Syrian crisis, making the humanitarian catastrophe instantly accessible for all.

NZME supports a number of charitable organisations both at a national and local level via its Marketing Partnerships programme. Spanning arts, sport, culture, health & youth sectors, NZME brands support The Halberg Sports Awards, the NZ Pride Parade, the Auckland Rescue Helicopter and The Starship Foundation.

"We are gold standard at reducing waste, working efficiently and minimising harm"

As part of our commitment to diversity, we support and sponsor New Zealand Asian Leaders ("NZAL") whose mission is to promote, educate and build a critical mass of current and emerging leaders. We're also partners in publishing the Chinese New Zealand Herald.

In support of Te Reo we promoted Māori Language Week across our assets, and as part of our Hauraki 50th anniversary celebrations supported our team to be trained on proper Māori pronunciation.

During the year we also supported other initiatives, such as Shine (fund raising for education), World Aids Day and SPCA collections.

Throughout the country, NZME people are supported and encouraged to contribute to worthy causes. Our Print and Production team received paid volunteer days this year to raise funds for the Auckland City Mission and regularly participate in charitable street collections.

Our talent regularly appear and participate in a multitude of events including local fun runs, the SkyCity Stair Climb, and regional Relay for Life events which raise money for the Blood and Leukemia Foundation.

We care about keeping our beautiful country clean. We're one of the largest Print companies in New Zealand and NZME Print has an Enviro-Mark Gold certificate which means we are gold standard at reducing waste, working efficiently and minimising harm to the environment and our people.

Green Star is a tool that rates and communicates the sustainability of New Zealand's commercial buildings. Our new building at NZME Central has achieved a 5 Green Star Rating – New Zealand Excellence. NZME Central also won the "best of the best" Supreme Award in the prestigious Property Council New Zealand Rider Levett Bucknall Property Industry Awards 2016 .

The NZME Board

SIR JOHN ANDERSON
Independent Chairman

Sir John has extensive commercial experience having held several senior positions in the New Zealand banking and finance industry. Formerly the Chief Executive Officer of the ANZ National Bank, Sir John is a director of T&G Global Limited (Deputy Chairman). Sir John is a Fellow of Chartered Accountants Australia and New Zealand, Fellow of the Institute of Financial Professionals New Zealand, Fellow of the Institute of Directors and a Life Member of the Australian Institute of Banking and Finance.

CAROL CAMPBELL
Independent Director

Carol is a chartered accountant and a member of Chartered Accountants Australia and New Zealand. Carol is a director of The Business Advisory Group, a chartered accountancy practice, where she advises privately owned businesses. Prior to that, she was a partner at Ernst & Young for over 25 years. Carol has extensive financial experience and a sound understanding of efficient board governance. Carol is a director of NZ Post Limited, Kiwibank Limited, Kingfish Limited, Marlin Global Limited, Barramundi Limited, NPT Limited, T&G Global and a number of other private companies and is chair of Ronald McDonald House Charities.

PETER CULLINANE
Independent Director

As the former Chief Operating Officer of Saatchi & Saatchi (Worldwide), and its Chief Executive Officer (New Zealand) and Chairman (Australasia) for over eight years prior, Peter is widely respected in global advertising and marketing and has extensive knowledge and expertise in both Australasian and global markets. Peter was appointed to the APN Board in November 2013. Peter is also the founder and Chairman of Lewis Road Creamery Limited. Peter was previously on the Board of WPP AUNZ Limited and SKYCITY Entertainment Group.

If the proposed merger with Fairfax NZ is approved, two further Board appointments will be made.

The NZME Executive Team

SHAYNE CURRIE
MANAGING EDITOR
Journalist for 25 years, in NZ and New York, he has overseen major change and innovation in newsrooms. 2016: 10-week scholarship at Cambridge University UK, studying audience patterns in the digital age.

MATT WILSON
CHIEF OPERATING OFFICER (Acting)
Over two decades at NZME with leadership roles in finance, sales, circulation, print and operations. Developed NZME's distribution services business.

LAURA MAXWELL
CHIEF COMMERCIAL OFFICER
Joined NZME in 2013. Previous General Manager of Yahoo! NZ. Over 20 years experience in media. Current Chair of the NZ Interactive Advertising Bureau.

ALLISON WHITNEY
LEGAL COUNSEL & COMPANY SECRETARY
Joined NZME in 2013 with over 15 years' legal experience both in-house and in private practice, including six years as in-house counsel to a London-based international media group.

SARAH JUDKINS
CHIEF STRATEGY OFFICER
Led the 2015 transformation and integration of the Publishing, Radio and Digital businesses into NZME. 20 years' experience providing strategic and transformation advice to a wide range of businesses across NZ and Asia.

LIZA MCNALLY
CHIEF MARKETING OFFICER
20 years' marketing and sales experience in the media industry. Previously held senior management roles at News Corp Australia.

DEAN BUCHANAN
GROUP DIRECTOR ENTERTAINMENT
Over two decades of experience in developing world-class content and talent in New Zealand and internationally. Previous Managing Director, NZME Radio.

SARAH WOOD
GENERAL MANAGER, GRABONE
Over 15 years of commercial experience in media, marketing and business management. US-based consultancy experience in brand and business transformation.

MIKE MORAN
CHIEF FINANCIAL OFFICER
Previously a partner at Deloitte with over 15 years' international experience in assurance and advisory. Initially joined NZME on an interim basis just prior to demerger from APN before joining permanently in February 2017.

MICHAEL BOGGS
CHIEF EXECUTIVE OFFICER
Previously held transformational finance, sales and operational executive roles in financial services, telco and consumer goods. Former CFO of NZME. 2014 CFO of the Year.

MICHELLE HAMILTON
GROUP DIRECTOR CULTURE & PERFORMANCE
Previous General Manager, Culture at TRN. HR and Employee Brand Manager at Event Cinemas, and eight years at SkyCity in various senior leadership roles.

Corporate Governance

1. GOVERNANCE FRAMEWORK

As described in note 6.1 of the consolidated financial statements, on 11 May 2016, APN News & Media Limited ("APN"), the then ultimate parent entity of the Company announced a demerger of 100% of the Group to APN shareholders ("Demerger"), subject to a majority shareholder vote held on 16 June 2016. The Demerger was approved by the requisite majority of APN Shareholders and all other conditions precedent to the Demerger were satisfied or waived. The Demerger was completed on 29 June 2016.

On 27 June 2016 the Company was listed on the NZX Main Board and as a Foreign Exempt Listing on the ASX (both under the ticker code "NZM"). The ASX Foreign Exempt Listing category is based on a principle of substituted compliance recognising that, for secondary listings, the primary regulatory role and oversight rests with the home exchange and the supervisory regulator in that jurisdiction. As such, NZME is required to comply with a limited set of ASX Listing Rules.

The Company's corporate governance framework, as described in this section, therefore primarily takes into consideration contemporary standards in New Zealand, incorporating the NZX Corporate Governance Best Practice Code ("NZX Code") and the New Zealand Financial Markets Authority's Corporate Governance in New Zealand Principles and Guidelines ("FMA Guide"). The corporate governance framework and other information as described herein, reflects the framework that was implemented following the demerger from APN.
The Board considers that the corporate governance practices it adopted and followed do not materially differ from those required by the NZX Code and the FMA Guide.

2. CONSTITUTION

The Company's constitution ("Constitution") is filed on the Companies Office website (http://www.companies.govt.nz/co/1181195). The Constitution specifies that the maximum number of directors (other than alternate directors) is eight. As at 31 December 2016, the Company had 3 directors.

The Constitution contains, amongst other things, the requirements regarding appointment and rotation of directors, filling vacancies on the Board, meetings of the Board and Board committee proceedings, and appointing alternate directors. The Constitution also requires the Company to comply with the NZX Listing Rules for so long as it is listed on the NZX.

3. CHARTERS AND POLICIES

The following charters and policies have been adopted by the Company and are available on the Company's website under the Corporate Governance section (http://www.nzme.co.nz/corporate-governance/):

- Code of Conduct and Ethics
- Diversity Policy
- Editorial Code of Ethics

- Fraud Policy
- Market Disclosure Policy
- Whistleblower Policy
- Securities Trading Policy
- Audit & Risk Committee Charter
- Governance & Remuneration Committee Charter
- Risk Management Policy

The Company's Code of Conduct and Ethics governs the Company and its subsidiaries' commercial operations and the conduct of Directors, employees, consultants and all other people when they represent the Company and its subsidiaries, together with the Company. The current Code of Conduct and Ethics was adopted on 27 June 2016 and is available via the Company's website. Reporting of breaches of the Code is encouraged and steps for doing so are set out in the Code of Conduct and Ethics and the Whistleblower Policy.

The Board of the Company has certain expectations of the Group in relation to its interactions with customers, shareholders, employees and the broader community.
The Code of Conduct and Ethics comprises certain fundamental principles and demonstrates the high standards of conduct expected of NZME.

Separate policies (as listed above) applicable to the Company are also relevant to the conduct of Company including policies dealing with securities trading and inside information, market disclosures, whistle blowing, diversity, fraud, editorial ethics and other matters.

4. THE BOARD OF DIRECTORS

4.1 Role Of The Board

The business and affairs of the Company is managed under the direction and supervision of the Board. The Directors acknowledge their duty to act in good faith and in the best interest of the Company. The Board is therefore responsible to the shareholders for the performance of the Company, including determining the Company's objectives and the strategies to achieve those objectives. The Board meets at regular intervals, and as otherwise required, to ensure that the Board is able to exercise its duties and perform its functions appropriately.

4.2 Director Independence & Profile

All of the Company's directors are independent directors for the purposes of the NZX Listing Rules. The profile for each Director is available on the Company's website (http://www.nzme.co.nz/corporate-governance/board-members/) and on page 25 of this Annual Report. Details regarding Directors' remuneration is available in section 1 of the Statutory Information section on page 32 of this report. Also refer to the Statutory Information section for further information regarding the date of appointment and remuneration of each Director. The roles of the Chairman and Chief Executive Officer are exercised by different persons.

4.3 Nomination & Appointment

Directors are appointed by the Company's shareholders, with rotation and retirement being determined by the Constitution. The Board may appoint Directors to fill casual vacancies. Directors appointed to fill casual vacancies are required to retire and stand for election at the first annual shareholders meeting after their appointment. The Governance & Remuneration Committee recommends to the Board potential candidates for appointment as Directors.

4.4 Induction & Access To Information & Advice

New Directors are provided with information about the Company, its operations and the environment and markets in which it operates in a personalised induction to meet the particular needs of each individual Director. All Directors have access to the advice and assistance of the Company Secretary on the Board's affairs and governance matters. In addition, all Directors may access such information and seek independent advice as they consider necessary to fulfil their duties and responsibilities.

4.5 Skills & Experience

The Governance & Remuneration Committee reviews, and makes recommendations to the Board regarding, the composition of the Board on an ongoing basis to ensure that it is comprised of members who provide the required breadth and depth of experience and knowledge to achieve the objectives of the Board. It also considers and recommends to the Board the appointment of additional Directors to provide the expertise to achieve the strategic and economic goals of the Company.

4.6 Directors & Officers Insurance

In accordance with Section 162 of the Companies Act 1993 and the Company's Constitution, NZME has indemnified and arranged insurance for all Directors and executive officers to the extent permitted by law for liabilities arising out of the performance of their normal duties as Directors and officers. The total amount of insurance contract premiums was $149,000.

5. BOARD COMMITTEES

The Board has two standing Committees, the Audit & Risk Committee and the Governance & Remuneration Committee, to assist in carrying out its responsibilities. Both Committees operate under Board approved charters. The Board may establish other committees from time to time to deal with specific projects or matters relating to the Company's various activities.

5.1 Audit & Risk Committee

The Committee consist of at least three non-executive directors, with the majority being also independent directors (one of whom must have an accounting and financial background). The functions of the Committee are to:

- Review, consider and if necessary, investigate any reports or findings arising from any audit function either internally or externally;
- Evaluate financial information submitted to it, along with relevant policies and procedures; and
- Assess the effectiveness of risk management throughout the Group.

The Committee is also responsible for communicating and engaging with the external auditors and for oversight and review of the risk management framework. For further information, also refer to the Committee's charter filed on the Company's website.

For the year ended 31 December 2016, all the Directors were members of the Audit & Risk Committee and it was chaired by Carol Campbell.

5.1.1 Risk management

The Audit & Risk Committee is responsible for the oversight and independent review of the Group's risk management framework, including:

- Review and approval of the risk management policy;
- Receiving and considering reports on risk management;
- Assessing the effectiveness of the Group's responses to risk; and
- Providing the Board with regular reports on risk management.

The Group has a formal Risk Management Policy and is committed to the consistent, proactive and effective monitoring and management of risk throughout the organisation, in accordance with best practice and the NZME Risk Management Framework and Guidelines.

The Board is ultimately responsible for the effectiveness, oversight and implementation of the Group's approach to risk management.

The Audit & Risk Committee is responsible for the oversight and independent review of the NZME Risk Management Framework and Guidelines, and assisting the Board to discharge its oversight responsibility for risk management.

The Chief Executive Officer ("CEO") is responsible for:

- The management of strategic, operational and financial risks of the Group;
- Continually monitoring the Group's progress against financial and operational performance targets;
- The day-to-day identification, assessment and management of risks applicable to the Group;
- Implementation of risk management controls, processes and policies and procedures appropriate for the Group;
- Driving a culture of risk management throughout the Group.

The NZME Risk Committee acts as a governance forum to assist the NZME CEO and the Group Executive in fulfilling their corporate governance responsibilities. This Committee provides assurance that the following aspects are managed appropriately:

- Strategic and Operational Risk Management;
- Work, Health and Safety matters;
- Legal, regulatory and policy compliance;
- Technology and Security matters;
- Business Continuity Planning.

During the year the Group had a Risk & Compliance Manager that was responsible for providing guidance where required and developing tools, templates and policies that facilitate the identification, management and reporting of risk and support the overall Risk Management Framework and Guidelines. Subsequently the Group appointed a Head of Risk, Compliance and Financial Reporting.

The Group is an integrated media and entertainment company and is subject to diverse types of risk including, but not limited to legal and regulatory compliance, financial and market, government policy and political, reputation and brand, operational risks and trading conditions.

The Group recognises that in order to achieve its strategic objectives it must be willing to take and accept informed risks. Risks relating to innovation, attracting and retaining talent, and content to drive audiences and address the needs of advertisers are encouraged within defined parameters. However in doing so, it is not acceptable to trade off financial or strategic returns by compromising compliance with the law, the safety of our people, or our reputation as a responsible corporate citizen and provider of news, sport and entertainment. When setting the appetite for taking and accepting risk, the Group also considers the risk posed by inaction in what is a fast-paced and disrupted market.

The Group's approach to risk management is assessed at least annually by the Audit & Risk Committee of the Board in order to make a recommendation to the full Board on the appropriateness of NZME's Risk Management Framework and Guidelines. The NZME Risk & Compliance Manager (and going forward reports to the Head of Risk, Compliance and Financial Reporting) reports to the NZME Risk Committee and Audit & Risk Committee on progress of the implementation of the Risk Management Framework and Guidelines.

5.2 Governance & Remuneration Committee

The Governance & Remuneration Committee ensures that remuneration policies and practices are consistent with the strategic goals of the Group and are relevant to the achievement of those goals. The Committee also reviews the remuneration of the CEO and remuneration packages of executives reporting directly to the CEO.

The Governance & Remuneration Committee also makes recommendations to the full Board regarding the composition of the Board, filling of vacancies, appointing additional Directors to the Board, and to review and adopt corporate governance policies and practices which reflect contemporary standards in New Zealand, incorporating principles and guidelines issued by the Financial Markets Authority and the NZX. For further information, also refer to the Committee's charter filed on the Company's website.

For the year ended 31 December 2016, all the Directors were members of the Governance & Remuneration Committee and it was chaired by Peter Cullinane.

6. REPORTING, DISCLOSURE AND SECURITIES TRADING

The Board has policies and procedures in place to keep investors and staff informed of material information about the Company and to ensure compliance with the continuous disclosure obligations under the Financial Markets Conduct Act 2013 and the NZX Listing Rules. The Board also has a Securities Trading Policy setting out the details of the Company's trading policy and guidelines and containing certain restrictions on dealing in the Company's quoted financial products. The requirements imposed by the policy are separate from, and in addition to, the legal prohibitions in the Financial Markets Conduct Act 2013 on insider trading.

7. DIVERSITY

The Group believes that a diverse workforce is essential for it to be able to deliver its strategic objectives and continue to meet its responsibilities to its customers, its employees, the communities in which it works, and its shareholders.

For the Group, diversity means the competitive value in the differences of its people in relation to gender, race, ethnicity, sexual orientation, age, disability, religion or cultural background.

The Group's full Diversity Policy is available on it's website. It is the Board's view that the Group is currently operating in accordance with, and applying the principles of, the policy.

The table below includes the quantitative breakdown as to the gender composition of NZME's Board and Officers[A].

	Board		Officers[A]	
As at	**Male**	**Female**	**Male**	**Female**
31 Dec 2016	2	1	5	6
31 Dec 2015	2	0	B	B

If the proposed merger with Fairfax NZ is approved, two further Board appointments will be made.

(A) The term 'Officer' is defined in the NZX Listing Rules as a person, however designated, who is concerned or takes part in the management of the Issuer's business, but excludes (i) a person who does not report directly to the Board or (ii) a person who does not report directly to a person who reports to the Board. NZME has interpreted this to mean the Chief Executive and any person reporting to the Chief Executive or the Board directly. The numbers above therefore include the CEO and other members of the Group Executive Team. (B) Prior to the Demerger from APN and the listing of the Company (see note 6.1 of the Consolidated Financial Statements) the Company was a subsidiary of the APN group with reporting lines to executives at the APN level. Given the significance of the Internal Restructuring prior to the Demerger and that individuals currently classified as Officers reported to other group entities rather than the Board, no comparative information has been provided for Officers as at 31 December 2015.

Statutory Information

1. DIRECTORS' REMUNERATION

Directors are remunerated in the form of directors' fees as set out in the table below. As set out in the Explanatory Memorandum for the Demerger of NZME by APN, the fees for Independent Directors are fixed as a total pool of $900,000 per annum. The fees paid to each Director depends on the duties of the Director, including committee work. Current fees per annum are as follow:

	FEES ($)
Chairman of the NZME Board	**150,000**
Membership of the NZME Board	**100,000**
Chair of NZME Board Committees	**20,000**
Membership of NZME Board Committees	**10,000**

Fees paid for the year ended 31 December 2016 (in $)

	DATE APPOINTED[A]	CHAIRMAN OF THE BOARD	BOARD MEMBER	COMMITTEE CHAIR	COMMITTEE MEMBER	TOTAL[B]
Sir John Anderson[C]	24 June 2016	75,000		-	10,000	**85,000**
Carol Campbell[D]	24 June 2016	-	50,000	10,000	5,000	**65,000**
Peter Cullinane[E]	24 June 2016	-	50,000	10,000	5,000	**65,000**
Total fees paid						**215,000**

(A) Refer to Note 6.1 of the consolidated financial statements for further information regarding the Demerger of NZME from APN. Prior to the Demerger, the Company was a wholly owned subsidiary of APN and no director received any remuneration from the Company for services as a director. (B) In addition to the fees noted in the table above, Directors are also entitled to be reimbursed for all reasonable travel, accommodation, and other costs incurred by them in connection with their attendance at NZME Board or shareholder meetings or otherwise in connection with NZME business. The fees above exclude any such reimbursements. (C) Sir John Anderson is the Chairman of the NZME Board and a member of the Audit & Risk and Governance & Remuneration Committees. (D) Carol Campbell is a member of the NZME Board, Chair of the Audit & Risk Committee and a member of the Governance & Remuneration Committee. (E) Peter Cullinane is a member of the NZME Board, Chair of the Governance & Remuneration Committee and a member of the Audit & Risk Committee.

Prior to the Demerger, Michael Boggs (now CEO) and Ciaran Davis (APN CEO) were directors of NZME Limited. They resigned as directors on 24 June 2016. Ciaran Davis was remunerated by APN and did not receive any remuneration for his services as a director of the Company. Michael Boggs did not receive remuneration for his services as a director of NZME Limited, but received the following remuneration as an employee during the year:

	SALARY[A]	BONUS[B]	BENEFITS[C]	TOTAL
Michael Boggs	701,488	138,425	25,197	**865,111**

Michael Boggs held 50,000 shares in the Company as 31 December 2016.

(A) Salary includes normal basic salary and paid leave. (B) Bonus payments are those paid during the current accounting period and excludes any bonus accrual not yet paid. (C) Benefits relate to company contributions for KiwiSaver.

2. DIRECTORS' INTEREST IN NZME SHARES

Ordinary shares held by Directors and parties associated with them are as follows:

	31 DEC 2016 NUMBER
Sir John Anderson	**114,286**
Carol Campbell	**50,000**
Peter Cullinane	**68,286**

All of the above mentioned shares were issued when the Company listed on 27 June 2016.

3. INTERESTS REGISTER

The general disclosures of interests made by Directors of Company during the accounting period, pursuant to section 140(2) of the Companies Act 1993, are shown below.

DIRECTOR	COMPANY	POSITION
Sir John Anderson	NPT Limited	Chairman (resigned effective 17 March 2017)
	Steel & Tube Holdings Limited	Chairman (resigned effective 31 March 2017)
	T&G Global Limited	Deputy Chairman
	Commonwealth Bank of Australia	Director (resigned effective 11 November 2016)
Peter Cullinane	APN News & Media Limited	Independent Director and Chairman of the Remuneration Committee
	Lewis Road Creamery	Chairman and Owner
	WPP AUNZ Limited	Director (resigned effective 16 December 2016)
Carol Campbell	The Business Advisory Group Ltd	Director and Owner
	NZ Post Limited	Director
	Kiwibank Limited	Director
	Kingfish Limited	Director
	Marlin Global Limited	Director
	Barramundi Limited	Director
	NPT Limited	Director
	T&G Global Limited	Director
	Ronald McDonald House Charities	Chair

The Interests Registers also includes, pursuant to section 140(1) of the Companies Act 1993, an entry for each director regarding the approval of the directors' remuneration at the 27 June 2016 Board meeting. It also contains an entry for Sir John Anderson declaring an interest in the banking facility agreement between NZME Ltd and Commonwealth Bank of Australia and ASB Bank Limited. Sir John was at the time a director of Commonwealth Bank of Australia and abstained from voting on this matter.

4. DIRECTORS OF SUBSIDIARY COMPANIES

As at 31 December 2016, Michael Boggs (CEO) and Sarah Judkins (Chief Strategy Officer) were directors of the wholly owned subsidiaries listed in Note 6.3 of the consolidated financial statements, other than NZME Australia Pty Limited. Michael Boggs (CEO) and Mark O'Sullivan (a professional director resident in Australia) were directors of NZME Australia Pty Limited as at 31 December 2016. Sarah Judkins was also a director of Chinese New Zealand Herald Limited, Restaurant Hub Limited, Eveve New Zealand Limited and Ratebroker Limited and a trustee of the Auckland Arts Festival. Michael Boggs is also a trustee of the Herald Foundation. Other than Mark O'Sullivan who received $4,693 for his services as a director of NZME Australia Pty Limited, they did not receive any fees or other benefit for their services as directors to any of these companies. Michael Boggs and Sarah Judkins receive remuneration as employees of the Company which are not related to their duties as directors of these companies. Ciaran Davis was a director of the wholly owned subsidiaries listed in note 6.3 of the financial statements (other than NZME Finance Limited) and ceased to hold office as a director of these companies on 24 June 2016. Jeffrey Howard was a director of NZME Finance Limited and ceased to hold office on 24 June 2016.

5. SHAREHOLDER INFORMATION

5.1 Substantial shareholders

The following information is given pursuant to Sub-Part 5 of Part 5 of the Financial Markets Conduct Act 2013. According to notices given to the Company, the substantial security holders in the Company are note below:

As at 31 December 2016

	DATE OF SUBSTANTIAL SECURITY NOTICE	NUMBER OF SHARES HELD	% OF SHARES HELD
Morgan Stanley & Co International Plc	14/11/16	11,770,521	6.01
Forager Funds Management Pty Ltd	14/11/16	13,460,256	6.87
Allan Gray Australia Pty Ltd	26/10/16	23,395,418	11.94
UBS Group AG	26/10/16	10,160,574	5.18
Perpetual Limited and subsidiaries	25/10/16	19,088,528	9.74
Westpac Banking Corporation	12/10/16	11,024,388	5.62

The total number of ordinary shares issued by the Company as at 31 December 2016 was 196,011,282. The Company did not have any other quoted voting products.

5.2 Top 20 shareholders

As at 28 February 2017

	NUMBER OF SHARES HELD	% OF SHARES HELD
New Zealand Central Securities Depository Limited	30,856,633	15.74
J P Morgan Nominees Australia Limited	28,059,439	14.32
National Nominees Limited	24,906,435	12.71
HSBC Custody Nominees (Australia) Limited	24,181,659	12.34
Citicorp Nominees Pty Limited	20,379,642	10.4
UBS Nominees Pty Ltd	10,516,975	5.37
RBC Investor Services Australia Nominees Pty Ltd	7,792,745	3.98
Bnp Paribas Nominees Pty Ltd	5,663,111	2.89
Bond Street Custodians Limited	2,769,405	1.41
UBS Nominees Pty Ltd	2,695,936	1.38
HSBC Custody Nominees (Australia) Limited A/C 2	2,676,141	1.37
Citicorp Nominees Pty Limited	2,592,243	1.32
Forsyth Barr Limited	2,065,706	1.05
Abn Amro Clearing Sydney Nominees Pty Ltd	1,519,231	0.78
Pax Pasha Pty Ltd	1,411,880	0.72
Aust Executor Trustees Ltd	1,059,634	0.54
Bnp Paribas Noms Pty Ltd	715,012	0.36
Richard Ewan Bromley Mews & Wee Khoon Mews	554,025	0.28
Warbont Nominees Pty Ltd	448,746	0.23
Leveraged Equities Finance Limited	435,000	0.22

5.3 Spread of quoted security holders

As at 28 February 2017

RANGE OF SECURITIES HELD	NUMBER OF INVESTORS	% OF TOTAL INVESTORS	SHARES HELD	% OF SHARES ISSUED
1 to 1,000	3,994	67.09	1,118,659	0.57
1,001 to 5,000	1,235	20.75	2,842,334	1.45
5,001 to 10,000	291	4.89	2,159,022	1.10
10,001 to 100,000	375	6.30	11,189,975	5.71
Above 100,000	58	0.97	178,701,292	91.17
Total	5,953	100	196,011,282	100

6. EMPLOYEE REMUNERATION

The Group paid remuneration including benefits in excess of $100,000 to employees (other than directors) during the year ended 31 December 2016. The salary banding for these employees are disclosed in the following table (bands with zero number of employees have been excluded):

REMUNERATION AMOUNT	EMPLOYEES	REMUNERATION AMOUNT	EMPLOYEES
$100,000 - $110,000	90	$290,001 - $300,000	3
$110,001 - $120,000	68	$300,001 - $310,000	2
$120,001 - $130,000	63	$310,001 - $320,000	5
$130,001 - $140,000	34	$320,001 - $330,000	4
$140,001 - $150,000	22	$330,001 - $340,000	1
$150,001 - $160,000	22	$340,001 - $350,000	2
$160,001 - $170,000	20	$370,001 - $380,000	1
$170,001 - $180,000	10	$380,001 - $390,000	2
$180,001 - $190,000	5	$390,001 - $400,000	1
$190,001 - $200,000	12	$410,001 - $420,000	1
$200,001 - $210,000	8	$430,001 - $440,000	2
$210,001 - $220,000	8	$450,001 - $460,000	1
$220,001 - $230,000	13	$480,001 - $490,000	1
$230,001 - $240,000	2	$510,001 - $520,000	2
$240,001 - $250,000	4	$530,001 - $540,000	1
$250,001 - $260,000	3	$600,001 - $610,000	1
$260,001 - $270,000	6	$860,001 - $870,000	1
$270,001 - $280,000	1	$1,020,001 - $1,030,000	1
$280,001 - $290,000	3		
Total number of employees that were paid remuneration of $100,000+			**426**

The remuneration above include all remuneration paid to permanent employees, including fixed remuneration, employer KiwiSaver contributions, medical aid contributions, bonuses, commission, settlements and redundancies.

7. OTHER INFORMATION

7.1 Waivers from the NZX
The Company did not receive any waivers from any of the NZX Listing Rules during the year.

7.2 Donations
In accordance with section 211(1)(h) of the Companies Act 1993, NZME notes that the Group made donations of $5,047 during the year ended 31 December 2016.

7.3 Credit rating
As at the date of this Annual Report, NZME did not have a credit rating.

7.4 Exercise of NZX disciplinary powers
For the year ended 31 December 2016, the NZX did not exercise any of its disciplinary powers under Rule 5.4.2 of the NZX Listing Rules in relation to the Company.

7.5 Auditors
Refer to note 2.2.4 of the consolidated financial statements for fees paid to the auditors, PricewaterhouseCoopers, for the year ended 31 December 2016.

The Audit & Risk Committee Charter requires the Committee to assess the following:

- The independence of the auditor;
- The ability of the auditors to provide additional services which may be occasionally required;
- The competency and reputation of the auditors;
- The projected audit fees; and
- Review the appointment, performance and remuneration of external auditors.

The Audit & Risk Committee also monitors and approves any services provided by the auditors other than in their statutory role and receives confirmation from the auditors as to their independence from the Company. The Audit & Risk Committee in conjunction with management also monitors and approves any service provided by the auditors other than in their statutory role. This is undertaken on a service by service basis and assesses whether the service is permissible under Professional and Ethical Standard 1 ("PES 1") issued by the New Zealand Auditing and Assurance Standards Board, ensuring that any potential threat to independence is identified and appropriate safeguards to eliminate the threat or reduce the threat to an acceptable level are established. The Audit & Risk Committee receives an annual confirmation from the auditor as to their independence from the Group. The auditor is also required to provide the Audit & Risk Committee with a detailed analysis of fees relating to non-audit services provided during the year, including a description of potential threats to their independence and the applicable safeguards implemented by the auditor to either mitigate those threats or reduce them to an acceptable level as required by PES 1. The Audit & Risk Committee takes the nature of the services provided, the quantum of the fee, the reason for the additional services and whether the services are likely to be one-off or repetitive in nature into consideration when evaluating and concluding on auditor independence.

For the year ended 31 December 2016, given the nature of the services provided and based on the Committee's continuous monitoring of auditor independence, the Audit & Risk Committee do not believe that the non-audit services provided by the auditors compromised their objectivity and independence.

7.6 Direct director appointments under the Company Constitution
Rule 3.3.8 of the NZX Listing Rules allow a company to include in its Constitution a right for a product holder to appoint a director to the Board under certain circumstances. As at 31 December 2016, none of the Directors were appointed pursuant to Rule 3.3.8.

Proposed NZME / Fairfax NZ Merger

PROCESS UPDATE

- The merger remains subject to regulatory and shareholder approval.
- The New Zealand Commerce Commission ("NZCC") released a draft determination in November 2016. Its preliminary view was to decline the application.
- A public hearing was held in December 2016 where interested parties, including NZME and Fairfax NZ, presented their arguments for or against the merger to the NZCC.
- We subsequently announced that NZME and Fairfax NZ Limited have received, and agreed to, requests from the NZCC to extend the target date for the NZCC's final decision on the proposed merger. The final determination is now expected to be made by 2 May 2017.

NEXT STEPS

- In the event that the merger is approved by the NZCC in May, NZME will seek to complete the transaction as soon as practicable.
- In the event that the merger is declined by the NZCC, the parties will consider their next steps (a decision by the NZCC to not approve the merger can be appealed).

MERGER CONSIDERATION[1]

Cash consideration	$55.0m
Shares issued to Fairfax NZ	136.2m
Total shares on issue post Merger	332.2m
Fairfax NZ shareholding post Merger	41%

(1) The final consideration is subject to pre and post merger completion adjustments as disclosed in the NZME market announcement dated 7 September 2016.

Non-GAAP Measures Explained

The Statutory Result, including the segment note, as reported in the Consolidated Financial Statements for the year ended 31 December 2016 is not reflective of the NZME business going forward, due to the impact of the demerger, tax payments, and the inclusion of the previous ownership interest in the Australian Radio Network. In order to show what the result would look like for NZME on a standalone basis, we have presented a number of non-GAAP measures which are further explained and reconciled to the GAAP figures in this supplementary information. This presentation should be read in conjunction with NZME's Consolidated Financial Statements.

REVENUE RECONCILIATION

Print Revenue

As disclosed in Note 2.4 of the Consolidated Financial Statements, the Group has one reportable segment, but discloses revenue for three channels. The commentary included in this annual report discusses certain components of revenue in further detail and also includes references to Trading Revenue and Pro-Forma Revenue. These items are explained and reconciled to Revenue as disclosed in Note 2.4 below:

NZME PRINT REVENUE ($M)	**FY16**	FY15	% CHANGE
Advertising Revenue	**132.7**	147.8	(10%)
Circulation Revenue	**86.1**	87.0	(1%)
Other Revenue	**18.9**	18.8	1%
Total Pro forma Revenue[1]	**237.7**	253.5	(6%)
Magazines Revenue[2]	-	5.9	(100%)
Revenue from Divestments[3]	**2.6**	5.4	(51%)
Total Trading Revenue[1]	**240.4**	264.8	(9%)
Acquired & Non-Trading items[4]	**(1.2)**	(2.8)	(57%)
Print Revenue per Financial Statements[5]	**239.1**	262.0	(9%)

(1) Pro forma and Trading Revenue are non-GAAP measures that are reconciled in the table above. (2) Relates to the unprofitable Pacific Magazines licensed business closed in September 2015. $5.3m of FY16 revenue was previously classified as circulation, and $0.6m as advertising revenue. (3) Revenue from divestments relates to revenues received from the Wairarapa Times Age sold in June 2016 (FY16 $2.3m), and Whakatane News sold in August 2016 (FY16 $0.3m). (4) See reconciliation on pages 40-41. (5) Agrees to Print Revenue in 2.4.2 of the consolidated financial statements.

Radio & Experiential Revenue

NZME RADIO & EXPERIENTIAL REVENUE ($M)	**FY16**	FY15	% CHANGE
Radio & Experiential Revenue[1]	**108.7**	114.2	(5%)
Other Revenue (incl. iHeart and Events)	**6.2**	6.0	3%
Total Trading Revenue[2]	**114.8**	120.2	(4%)

(1) Radio & Experiential Revenue includes agency, direct and experiential revenue streams. (2) Trading Revenue is a non-GAAP measure that is explained and reconciled in this section of the Annual Report. There were no adjustments for Radio & Experiential revenue. This is therefore also the Radio & Experiential revenue as disclosed in note 2.4.2 of the consolidated financial statements.

Digital & e-Commerce Revenue

NZME DIGITAL & E-COMMERCE REVENUE ($M)	**FY16**	FY15	% CHANGE
Digital Revenue	38.2	30.7	24%
e-Commerce Revenue	14.0	17.3	(19%)
Total Trading Revenue[1]	**52.2**	48.0	9%

(1) Trading Revenue is a non-GAAP measure that is explained and reconciled in this section of the Annual Report. There were no adjustments for Radio and Experiential revenue. This is also the Digital and e-Commerce revenue as disclosed in note 2.4.2 of the consolidated financial statements.

Non-GAAP Measures Explained (continued)

NZME FY16 TRADING RECONCILIATION TO FINANCIAL STATEMENTS

$M	NZME TRADING RESULT[1]	NZME RELATED EXCEPTIONALS	ACQUIRED & NON-TRADING ITEMS[2]	FINANCIAL STATEMENTS[3]
Revenue	407.4	-	(1.2)	406.1
Other Income	2.4	1.3	0.4	4.1
Total Revenue & Other Income	**409.7**	**1.3**	**(0.8)**	**410.2**
Costs	(337.8)	(13.0)	(12.8)	(363.6)
EBITDA	**71.9**	**(11.6)**	**(13.6)**	**46.6**
Depreciation and amortisation	(23.8)	-	-	(23.8)
EBIT	**48.1**	**(11.6)**	**(13.6)**	**22.8**
Net interest expense				(9.3)
NPBT				**13.5**
Tax				(64.0)
Profit from discontinued operations				125.1
Statutory NPAT				**74.5**

(1) The NZME Trading Result comprises Trading Revenue, Trading Other Income, Trading Costs, Trading Earnings Before Interest, Tax, Depreciation and Amortisation (Trading EBITDA) and Trading Earnings Before Interest and Tax (Trading EBIT) which are non-GAAP measures. The NZME Trading Result for FY16 shows NZME on a standalone basis for the full year by including the Educational Media business for a full year (which is only included for the second half of the year in the Consolidated Financial Statements as it was acquired as part of the demerger), and excluding exceptional items (separately disclosed on page 43) and without adjusting for earnings from businesses divested during the year (Wairarapa Times Age and Whakatane News) which are also included in the Consolidated Financial Statements. (2) Acquired and non-trading items include Revenue of $1.2 million and Costs of $0.8 million relating to the Educational Media business, which is offset by Masthead Royalty charges of $12.2 million incurred in H1 and other overhead costs previously paid for by other entities in the Group prior to the demerger. (3) Revenue of $406.1 million agrees to Total revenues from external customers excluding revenue from shared service centre in Note 2.4.2 of the Consolidated Financial Statements. Other revenue of $4.1 million consists of dividend income, rental income from sub-leases, revenue from shared service centre, interest income and gain on disposal of properties from the same note.
All other items agree to the Consolidated Income Statement.

NZME FY15 TRADING RECONCILIATION TO FINANCIAL STATEMENTS

$M	NZME TRADING RESULT[1]	NZME RELATED EXCEPTIONALS	ACQUIRED & NON-TRADING ITEMS[2]	FINANCIAL STATEMENTS[3]
Revenue	433.0	-	(2.8)	430.2
Other Income	0.5	0.4	0.6	1.5
Total Revenue & Other Income	**433.6**	**0.4**	**(2.3)**	**431.7**
Costs	(358.6)	(15.5)	(26.6)	(400.7)
Adj. to FY15 for standalone costs	(3.1)	-	3.1	-
EBITDA	**71.8**	**(15.1)**	**(25.7)**	**31.0**
Depreciation and amortisation	(23.7)	-	-	(23.7)
EBIT	**48.2**	**(15.1)**	**(25.7)**	**7.3**
Net interest expense				(18.8)
NPBT				**(11.5)**
Tax				1.2
Profit from discontinued operations				53.2
Statutory NPAT				**42.9**

(1) The FY15 NZME segment result in the APN FY15 accounts was $74.9m, this has been adjusted in the Trading Result for $3.1m of standalone costs incurred in H2 16 to provide a like for like comparison. The NZME Trading Result comprises Trading Revenue, Trading Other Income, Trading Costs, Trading Earnings Before Interest, Tax, Depreciation and Amortisation (Trading EBITDA) and Trading Earnings Before Interest and Tax (Trading EBIT) which are non-GAAP measures. The NZME Trading Result for FY15 shows NZME on a standalone basis for the full year by including the Educational Media business for a full year (acquired as part of the demerger), and excluding exceptional items (separately disclosed on page 43) and without adjusting for earnings for business closures during the year (Pacific Magazines) which are also included in the Consolidated Financial Statements. (2) Acquired and non-trading items include Revenue of $2.8 million and Costs of $1.8 million relating to the Educational Media business, which is offset by Masthead Royalty charges of $22.8 million incurred in H1 and other overhead costs previously paid for by other entities in the Group prior to the demerger.
(3) Revenue of $430.2 million agrees to Total revenues from external customers excluding revenue from shared service centre in Note 2.4.2 of the Consolidated Financial Statements. Other revenue of $1.5 million consists of dividend income, rental income from sub-leases, interest income and gain on disposal of properties from the same note. All other items agree to the Consolidated Income Statement.

Non-GAAP Measures Explained (continued)

NZME FY16 & FY15 TRADING TO PRO FORMA RECONCILIATION

$M	FY16 PRO FORMA RESULT[1]	FY15 PRO FORMA RESULT[1]
Trading EBITDA[1]	**71.9**	71.8
Standalone costs yet to be incurred[2]	**(4.3)**	(4.3)
Trading EBITDA[1] after standalone costs	**67.6**	67.5
Earnings from divestments	**(0.4)**	-
Pro forma EBITDA	**67.2**	67.5
Depreciation and amortisation	**(23.8)**	(23.7)
Pro forma EBIT	**43.4**	43.9
Interest expense[3]	**(4.2)**	(5.5)
Pro forma NPBT	**39.2**	38.4
Tax[4]	**(11.4)**	(10.7)
Pro forma NPAT	**27.8**	27.5
Earnings per share (cps)	**14.2**	14.0
Final dividend (cps)	**6.0**	

(1) The NZME Pro forma result comprises Pro forma Earnings Before Interest, Tax, Depreciation and Amortisation (Pro forma EBITDA), Pro forma Earnings Before Interest and Tax (Pro forma EBIT), Pro forma Net Profit Before Tax (Pro forma EBIT) and Pro forma Net Profit After Tax (Pro forma NPAT) which are non-GAAP measures. The NZME Pro forma Result for FY 16 shows what NZME would look like if only the continuing operations were included. It therefore starts with the Trading Result (explained and reconciled on pages 40 and 41) and is further adjusted to exclude the divestments of Wairarapa Times Age and Whakatane News from the FY16 result, and to include a full year equivalent of additional standalone costs (costs that NZME incurs as a standalone listed entity that it did not have before the demerger). The FY15 Pro forma result is per the Explanatory Memorandum for the Demerger of NZME by APN published on 11 May 2016. (2) Standalone costs yet to be incurred has been estimated based on the standalone costs disclosed in the Explanatory Memorandum for the Demerger of NZME by APN published on 11 May 2016 and taking into consideration the actual standalone costs incurred during H2. (3) Net interest expense has been calculated at NZME's current interest rate payable of 3.8% p.a. (4) Tax payable has been calculated indicatively utilising NZME's current effective tax rate of 29%.

NZME FY16 & FY15 RELATED EXCEPTIONALS

NZME RELATED EXCEPTIONALS ($M)	FY16	FY15
Redundancies[1]	(6.0)	(7.2)
Costs in relation to one-off projects[2]	(6.9)	(5.3)
Business and property divestments[3]	1.3	0.4
Asset write downs[4]	-	(3.0)
NZME Related Exceptionals	**(11.6)**	**(15.1)**

(1) Redundancy costs relate to ongoing restructuring and integration. (2) Costs in relation to one-off projects are largely due to the proposed Fairfax merger and ongoing integration programmes. (3) In FY16 the profit on business divestments of $1.3m related to the disposal of the Wairarapa and Whakatane Publishing businesses, offset by a minor loss on sale of property. (4) Asset write downs in FY15 relate to co-location as part of the NZME Central integration.

Consolidated Financial Statements

for the year ended 31 December 2016

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CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2016

* In an attempt to make these financial statements easier to read, the notes to the financial statements have been grouped into seven sections; aimed at grouping items of a similar nature together. The Basis of Preparation section presents a summary of material information and general accounting policies that are necessary to understand the basis on which these consolidated financial statements have been prepared. Accounting policies specific to a particular note are included in that note and are shaded for ease of reference. Key judgments and estimates relevant to a particular note are also included in the relevant note, and are clearly marked as such. A summary of the key judgments and estimates are also included under the Basis of Preparation section on pages 53-55.

Directors' Statement

The Directors are pleased to present the consolidated financial statements of NZME Limited (the"Company") and its subsidiaries (together the "Group") for the year ended 31 December 2016, incorporating the consolidated financial statements and the auditor's report.

The Directors are responsible, on behalf of the Company, for presenting these consolidated financial statements in accordance with applicable New Zealand legislation and generally acceptable accounting practices in New Zealand in order to present consolidated financial statements that present fairly, in all material respects, the financial position of the Group as at 31 December 2016 and the results of the Group's operations and cash flows for the year then ended.

The consolidated financial statements for the Group as presented on pages 46 to 99 are signed on behalf of the Board of Directors, and are authorised for issue on the date below.

For and on behalf of the Board of Directors

Sir John Anderson
Director

Carol Campbell
Director

Date: 23 February 2017

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2016

	NOTE	**2016 $'000**	2015 $'000
CONTINUING OPERATIONS			
Revenue	2.1	**407,856**	430,198
Finance and other income	2.1	**2,340**	1,544
Total revenue and other income	2.1	**410,196**	431,742
Expenses from operations before finance costs, depreciation, amortisation	2.2.1	**(363,553)**	(400,726)
Depreciation & amortisation	2.2.2	**(23,845)**	(23,683)
Finance costs	2.2.3	**(9,300)**	(18,808)
Profit / (loss) from continuing operations before income tax expense		**13,498**	(11,475)
Income tax expense	5.1	**(64,050)**	1,207
Profit / (loss) from continuing operations for the year		**(50,552)**	(10,268)
DISCONTINUED OPERATIONS			
Profit / (loss) after tax from discontinued operations	6.1.1	**125,095**	53,165
Profit / (loss) for the year		**74,543**	42,897
PROFIT / (LOSS) FOR THE YEAR IS ATTRIBUTABLE TO:			
Owners of the Company		**60,618**	24,735
Non-controlling interests		**13,925**	18,162
Profit / (loss) for the year		**74,543**	42,897

	NOTE	**CENTS**	CENTS
Earnings per share from continuing operations attributable to the ordinary shareholders of the company			
Basic / diluted earnings per share	2.3	**(28.0)**	(6.6)
Earnings per share from profit for the year (continuing and discontinued operations) attributable to the ordinary shareholders of the Company			
Basic / diluted earnings per share	2.3	**30.9**	12.6

The above Consolidated Income Statement should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2016

	NOTE	**2016 $'000**	2015 $'000
Profit for the year		**74,543**	42,897
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations	4.2	**44,846**	3,606
Items that will not be reclassified to profit or loss			
Revaluation of freehold land and buildings	4.2	-	356
Exchange and other differences applicable to non-controlling interests		**(14,683)**	7,110
Other comprehensive income, net of tax		**30,163**	11,072
Total comprehensive income		**104,706**	53,969
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the Company		**105,464**	28,697
Non-controlling interests		**(758)**	25,272
		104,706	53,969
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO OWNERS OF THE COMPANY:			
Continuing operations		**(10,038)**	(8,951)
Discontinued operations		**115,502**	37,648
		105,464	28,697

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

CONSOLIDATED BALANCE SHEET
as at 31 December 2016

	NOTE	**2016 $'000**	2015 $'000
CURRENT ASSETS			
Cash and cash equivalents	4.7	**16,242**	11,065
Trade and other receivables	3.3	**53,631**	409,870
Inventories		**2,226**	2,956
Tax receivable		**-**	770
Total current assets		**72,099**	424,661
NON-CURRENT ASSETS			
Intangible assets	3.1	**329,776**	597,100
Property, plant and equipment	3.2	**75,677**	99,216
Other financial assets	6.4.3	**5,988**	128,386
Deferred tax assets	5.2	**-**	46,065
Total non-current assets		**411,441**	870,767
Total assets		**483,540**	1,295,428
CURRENT LIABILITIES			
Trade and other payables	3.4	**66,379**	426,197
Interest bearing liabilities	4.5	**-**	1,257
Current tax provision		**2,800**	1,620
Total current liabilities		**69,179**	429,074
NON-CURRENT LIABILITIES			
Trade and other payables	3.4	**13,423**	13,934
Interest bearing liabilities	4.5	**112,168**	184,500
Deferred tax liabilities	5.2	**3,211**	36,096
Total non-current liabilities		**128,802**	234,530
Total liabilities		**197,981**	663,604
Net assets		**285,559**	631,824
EQUITY			
Share capital	4.1	**360,363**	360,363
Reserves	4.2	**(5,198)**	(34,992)
Retained earnings		**(69,606)**	104,584
Total Company interest		**285,559**	429,955
Non-controlling interests		**-**	201,869
Total equity		**285,559**	631,824

The above Consolidated Balance Sheet should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2016

		Attributable to owners of the Company					
GROUP	NOTE	SHARE CAPITAL $'000	RESERVES $'000	RETAINED EARNINGS $'000	**TOTAL $'000**	NON-CONTROLLING INTERESTS $'000	**TOTAL EQUITY $'000**
Balance at 1 January 2015		360,363	(38,616)	79,511	**401,258**	190,736	**591,994**
Profit for the year		-	-	24,735	**24,735**	18,162	**42,897**
Other comprehensive income		-	3,962	-	**3,962**	7,110	**11,072**
Total comprehensive income		-	3,962	24,735	**28,697**	25,272	**53,969**
Transfers within equity	4.2	-	(338)	338	**-**	-	**-**
Equity transactions with non-controlling interests		-	-	-	**-**	(14,139)	**(14,139)**
Balance at 31 December 2015		360,363	(34,992)	104,584	**429,955**	201,869	**631,824**
Balance at 1 January 2016		360,363	(34,992)	104,584	**429,955**	201,869	**631,824**
Profit for the year		-	-	60,618	**60,618**	13,925	**74,543**
Other comprehensive income		-	44,846	-	**44,846**	(14,683)	**30,163**
Total comprehensive income		-	44,846	60,618	**105,464**	(758)	**104,705**
Transfer from asset revaluation reserve	4.2	-	(464)	464	**-**	-	**-**
Transfer from transaction with non-controlling interest reserve	4.2	-	(14,732)	14,732	**-**	-	**-**
Dividends paid	4.4	-	-	(198,118)	**(198,118)**	-	**(198,118)**
Transactions with non-controlling interests		-	-	-	**-**	(3,630)	**(3,630)**
Share based payments expense	4.2	-	144	-	**144**	-	**144**
Acquisitions and divestments of subsidiaries and operations	6	-	-	(51,886)	**(51,886)**	(197,481)	**(249,367)**
Balance at 31 December 2016		360,363	(5,198)	(69,606)	**285,559**	-	**285,559**

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2016

	NOTE	**2016 $'000**	2015 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		**581,485**	742,182
Payments to suppliers and employees		**(488,558)**	(609,375)
Dividends received		**141**	4,031
Interest received		**223**	277
Interest paid		**(8,811)**	(10,838)
Income taxes paid		**(22,798)**	(5,359)
Net cash inflows / (outflows) from operating activities	4.7	**61,682**	120,918
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment		**(11,549)**	(27,008)
Payments for intangible assets including software		**(4,407)**	(9,622)
Acquisition of controlled entities, net of cash acquired	6.2	**-**	(82,871)
Proceeds from sale of property, plant and equipment		**2,251**	868
Proceeds from divestment of subsidiaries, net of their cash, as part of internal restructure	6.1.3	**95,936**	-
Payments for investment in other entities		**(848)**	-
Net loans repaid / (advanced) to other entities		**2,278**	480
Net cash inflows / (outflows) from investing activities		**83,661**	(118,153)
CASH FLOWS FROM FINANCING ACTIVITIES			
Loans advanced / (repaid) by related parties		**(55,958)**	45,752
Proceeds from borrowings		**54,000**	42,000
Repayments of borrowings		**(127,242)**	(79,222)
Payments for borrowing cost		**(400)**	-
Dividends paid to Company's shareholders		**(6,860)**	-
Net payments to non-controlling interests		**(3,630)**	(16,671)
Net cash inflows / (outflows) from financing activities		**(140,090)**	(8,141)
Net increase / (decrease) in cash and cash equivalents		**5,253**	(5,376)
Cash and cash equivalents at beginning of the year		**11,065**	16,367
Effect of exchange rate changes		**(76)**	74
Cash and cash equivalents at end of the year	4.7	**16,242**	11,065

The Consolidated Statement of Cash Flows includes cashflows from continuing and discontinued operations. Refer to Note 6.1.3 for further information on cash flows from discontinued operations. The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

NOTES TO THE **CONSOLIDATED FINANCIAL STATEMENTS**

1.0 BASIS OF PREPARATION

1.1 REPORTING ENTITY AND STATUTORY BASE

NZME Limited (NZX:NZM, ASX:NZM), formerly "Wilson & Horton Limited", is a for-profit company limited by ordinary shares which are publicly traded on the NZX Main Board and the Australian Securities Exchange as a Foreign Exempt Listing. NZME Limited is incorporated and domiciled in New Zealand. It is registered under the Companies Act 1993 and is a FMC reporting entity under Part 7 of the Financial Markets Conduct Act 2013. The entity's registered office is 2 Graham Street, Auckland, 1010, New Zealand.

NZME Limited (the "Company" or "Parent") and its subsidiaries' (together the "Group") principal activity during the financial year was the operation of an integrated print, radio and digital media and entertainment business.

1.2 GENERAL ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). They comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable Financial Reporting Standards, as appropriate for for-profit entities. The consolidated financial statements also comply with International Financial Reporting Standards ("IFRS"). The consolidated financial statements have also been prepared in accordance with Part 7 of the Financial Markets Conduct Act 2013 and the NZX Listing Rules.

The principal accounting policies adopted in the preparation of the financial statements are either set out below, or in the note to which it relates. These policies have been consistently applied to all the years presented, unless otherwise stated. These consolidated financial statements are presented for the Group.

These consolidated financial statements were approved for issue by the Board of Directors on 23 February 2017.

1.2.1 Basis of measurement

These financial statements have been prepared under the historical cost convention with the exception of certain items for which specific accounting policies are identified.

1.2.2 Comparatives

Certain prior period information has been re-presented consistent with current year disclosures to provide more meaningful comparison. The comparatives for the current period have been re-presented for the effects of the application of NZ IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* following the disposal of the Group's interest in the Australian Radio Network (including Brisbane FM Radio Pty Ltd, Radio Perth 96FM Pty Limited and Emotive Pty Limited), The Level 3 Partnership and The Level 4 Partnership ("Disposed Entities"). Refer to note 6.1 "Demerger from APN". The nature of the re-presentation is as follows:

- All income and expense items relating to the Disposed Entities have been removed from the individual line items in the income statement. The post-tax profit/(loss) of the Disposed Entities is presented as a single amount in the line item entitled "Profit/(loss) from discontinued operations"; and
- The net cash flows attributable to the operating, investing and financing activities of the Disposed Entities are each disclosed in the notes to the financial statements.

1.2.3 Foreign currency translation

Functional and presentation currency
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (functional currency). The consolidated financial statements are presented in New Zealand dollars, which is the Company's functional and the Group's presentation currency, and rounded to the nearest thousand, except where otherwise stated.

Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Group companies
The result and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at the closing rate at the date of the balance sheet;
- Income and expenses are translated at average exchange rates; and
- All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments are taken to equity. When a foreign operation is sold or a partial disposal occurs, a proportionate share of such exchange differences is recognised in the income statement as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

1.2.4 Goods and Services Tax ('GST')

The income statement has been prepared so that all components are stated exclusive of GST. All items in the balance sheet are stated net of GST, with exception of receivables and payables, which include GST invoiced. On the statements of cash flows receipts from customers and payments to suppliers are shown inclusive of GST.

1.3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the consolidated financial statements requires the use of certain significant judgements, accounting estimates and assumptions, including judgements, estimates and assumptions concerning the future. The estimates and assumptions are based on historical experiences and other factors that are considered to be relevant. The resulting accounting estimates will by definition, seldom equal the related actual results and are reviewed on an ongoing basis. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of the assets and liabilities within the next financial year are discussed in further detail in the notes to the consolidated financial statements to which they relate. A list of those areas of significant estimation or judgement and a reference to the notes containing further information is provided below:

Areas of significant accounting estimates or judgements	**NOTE**
Impact of Performance Rights on earnings per share	2.3
Determination of number of segments	2.4
Intangible assets with indefinite useful lives	3.1
Assumptions used in testing for impairment of indefinite life intangible assets	3.1.1
Controlled entities	6.3

1.4 SIGNIFICANT CHANGES IN THE CURRENT REPORTING PERIOD

1.4.1 Demerger from APN News & Media Limited

The Company completed its demerger from APN News & Media Limited ("APN") on 29 June 2016, marking the creation of a standalone NZ Group focused on the operation of an integrated print, radio and digital media and entertainment business.

NZME shares were distributed to eligible APN shareholders at a ratio of one NZME share for every one APN share. Refer to note 6.1 and NZME NZX announcements on 27 June 2016 and 29 June 2016 for further details.

1.4.2 Proposed Merger with Fairfax New Zealand Limited

As noted in the combined NZME Limited and Fairfax Media Limited announcement dated 22 August 2016, Fairfax New Zealand Limited ("Fairfax NZ") and NZME Limited received and agreed to a request from the New Zealand Commerce Commission ("NZCC") to extend the date for the NZCC's decision on the proposed merger of the two businesses until 15 March 2017.

On 7 September 2016 NZME Limited and Fairfax NZ announced the signing of a merger implementation agreement to effect the merger of NZME Limited and Fairfax NZ.

Overseas Investment Office ("OIO") consent to the merger was obtained on 22 September 2016.

On 8 November 2016 the NZCC issued a Draft Determination setting out its preliminary view that,

based on the information received as at that date, it should decline the proposed merger between NZME and Fairfax NZ. The purpose of the Draft Determination is to elicit further submissions and evidence to assist the NZCC in making a Final Determination.

On 28 November 2016 NZME announced that it had filed a joint submission with Fairfax NZ to the NZCC in response to the issues raised in the Draft Determination. The NZCC held a conference on 6 & 7 December 2016 to consider matters relating to the merger to assist the NZCC in making a Final Determination on the merger. The NZCC is due to make a Final Determination on the proposed merger on or before 15 March 2017.

1.4.3 Taxation

On 23 June 2016, the Company and APN reached a binding heads of agreement with the Inland Revenue Department ("IRD") to settle the Mandatory Convertible Note transaction, the Branch financing transaction, non-resident withholding tax and thin capitalisation issues, and a further matter that was under review by the IRD. Refer to note 5.3 for further details.

2.0 GROUP PERFORMANCE

2.1 REVENUE AND OTHER INCOME

	2016 $'000	2015 $'000
FROM CONTINUING OPERATIONS		
Advertising revenue	**295,141**	314,655
Circulation and subscription revenue	**86,782**	93,582
Services revenue	**12,206**	11,826
Other revenue	**13,727**	10,135
Revenue from continuing operations	**407,856**	430,198
Dividends	**141**	267
Rental income from sub-leases	**586**	521
Profit / (loss) on disposal of properties and businesses	**1,320**	441
Other income	**2,047**	1,229
Interest income – related parties	**91**	-
Interest income – other entities	**202**	315
Finance income	**293**	315
Total finance and other income	**2,340**	1,544
Total revenue and other income	**410,196**	431,742
FROM DISCONTINUED OPERATIONS (REFER TO NOTE 6.1.1)		
Total revenue and other income	**127,542**	252,019

Accounting policies
Revenue is measured at the fair value of consideration received or receivable. Amounts disclosed as revenue are net of returns, rebates and taxes paid.

The Group recognises revenue when:
- the amount of revenue can be reliably measured;
- it is probable that the economic benefits will flow to the Group; and
- the criteria for revenue recognition has been satisfied.

Advertising revenue is recognised when the advertisement is published or broadcast, when the coupon is sold, or over the period the advertisement is displayed.

Circulation and subscription revenue is recognised when the publication is purchased or on a straight-line basis over the subscription period.

Services revenue is recognised by reference to the stage of completion of the transaction, when it can be measured reliably. Services revenue includes printing and production and revenue generated by the shared services centre.

Other revenue includes revenue from events, recycling of waste, distribution charges and digital design and is recognised when the event occurs, the product is delivered or the goods are sold.

2.2 EXPENSES

2.2.1 Expenses from operations before finance costs, depreciation, amortisation

	2016 $'000	2015 $'000
FROM CONTINUING OPERATIONS		
Employee benefits expense	**161,610**	164,621
Production and distribution expense	**82,301**	99,394
Selling and marketing expense	**45,840**	50,220
Rental and occupancy expense	**23,711**	23,785
Masthead license fees	**12,216**	22,853
Costs in relation to one-off projects	**6,946**	5,312
Redundancies and associated costs	**6,009**	7,178
Asset write-downs and business closures	**-**	3,028
Repairs and maintenance costs	**6,166**	5,771
Travel and entertainment costs	**4,086**	3,892
Other	**14,668**	14,672
Total expenses from operations before finance costs, depreciation, amortisation	**363,553**	400,726

	2016 $'000	2015 $'000
2.2.2 Depreciation & amortisation		
FROM CONTINUING OPERATIONS		
Depreciation	**16,173**	14,023
Amortisation	**7,672**	9,660
Total depreciation & amortisation	**23,845**	23,683
2.2.3 Finance cost		
FROM CONTINUING OPERATIONS		
Interest and finance charges – related parties	**2,765**	6,305
Interest and finance charges – other entities	**6,482**	12,503
Borrowing cost amortisation	**53**	-
Total finance cost	**9,300**	18,808

	2016 $'000	2015 $'000
2.2.4 Fees paid to auditors		
Fees paid to the Group's auditors, PricewaterhouseCoopers, consist of:		
Audit or review of financial statements[A]	**454**	379
Other services		
Other assurance services[B]	**6**	64
Tax services[C]	**1,057**	750
Other services[D]	**1,231**	93
Total other services	**2,294**	907
Total fees paid to auditors	**2,748**	1,286

(A) Includes the fee for both the audit of the annual financial statements and the independent review of the interim financial statements. (B) Includes regulatory and other assurance services, including New Zealand circulations. (C) Includes services relating to transactional advice, tax compliance services, tax pooling services and services relating to the IRD settlement (refer to note 5.3). (D) Includes due diligence and advisory services relating to the proposed merger with Fairfax New Zealand Limited of $1,224,179 in 2016 and other advisory services.

2.3 EARNINGS PER SHARE

Significant Judgement
Under the Group's Total Incentive Plan ("TIP") as discussed in Note 4.3, Performance Rights were issued to certain participating employees that will convert into fully paid ordinary shares. Under the TIP, the Company would either repurchase those shares from the market or issue new shares. Any new shares issued would have a dilutive effect on the Earnings Per Share calculations noted below. It is currently the intention of the Company to repurchase shares from the market and not to issue new shares.

	2016 $'000	2015 $'000
RECONCILIATION OF EARNINGS USED IN CALCULATING BASIC / DILUTED EARNINGS PER SHARE ("EPS")		
Profit / (Loss) from continuing operations attributable to owners of the parent entity	**(54,884)**	(12,913)
Profit from discontinuing operations attributable to owners of the parent entity	**115,502**	37,648
Profit / (Loss) attributable to owners of the parent entity used in calculating EPS	**60,618**	24,735

	2016 NUMBER	2015 NUMBER
WEIGHTED AVERAGE NUMBER OF SHARES		
Weighted average number of shares in the denominator in calculating basic EPS[A]	**196,011,282**	196,011,282
Adjusted for calculation of diluted EPS	**-**	-
Weighted average number of shares in the denominator in calculating diluted EPS	**196,011,282**	196,011,282

	2016 CENTS	2015 CENTS
BASIC / DILUTED EARNINGS PER SHARE		
From continuing operations attributable to owners of the parent entity	**(28.0)**	(6.6)
From discontinuing operations attributable to owners of the parent entity	**58.9**	19.2
Total basic / diluted earnings per share attributable to owners of the parent entity	**30.9**	12.6

(A) Due to the share consolidation in the current period (refer to note 4.1), the number of ordinary shares outstanding during the year ended 31 December 2015 was retrospectively adjusted.

Accounting policies

Basic earnings per share (from continuing operations)

Basic earnings per share is determined by dividing:

- the profit or loss attributable to owners of the Company; by
- the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share (from continuing operations)

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share by taking into account:

- the after-tax effect of dividends, interest and other changes in income or expense associated with dilutive potential ordinary shares; and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(Note that there are no dilutive potential ordinary shares in 2016 (2015: nil)).

Basic / dilutive earnings per share (from discontinued operations)

Basic / dilutive earnings per share (from discontinued operations) are calculated on the same basis as the policies described above, except that net profit or loss attributable to the owners of the Company is replaced with profit or loss from discontinued operations attributable to the owners of the Company.

2.4 SEGMENT INFORMATION

2.4.1 Determination and description of segments

Following the demerger and internal restructure which resulted in the Company being listed as a separate standalone entity, the segmental reporting was revised to align to the format that is used to report to the Chief Operating Decision Maker. The corresponding information for 2015 has been re-presented.

Significant Judgement

The Group has one reportable segment – being "Integrated Media and Entertainment". All significant operating decisions are based upon analysis of NZME as one operating segment. The Executive Team and the Board of Directors have been identified as the Chief Operating Decision Maker. The Group's major products and services are split by channel only at the revenue level into Print, Radio & Experiential and Digital & e-Commerce which is the way in which revenue is reported to the Chief Operating Decision Maker. Although the Group operates in many different markets within New Zealand, for management reporting purposes the Group operates in one principle geographical area being New Zealand as a whole.

Integrated Media and Entertainment incorporates the sale of advertising, goods and services generated from the audiences attached to the Group's media platforms. Discontinued operations have been presented in Note 6.1.

2.4.2 Segment revenues and results

The segment information provided to the Directors and Executive Team for the year ended 31 December 2016 is as follows:

	2016 $'000	2015 $'000
REVENUES FROM EXTERNAL CUSTOMERS BY CHANNEL		
Print	**239,127**	262,006
Radio & Experiential	**114,849**	120,173
Digital & e-Commerce	**52,153**	48,019
Total revenues from external customers excluding revenue from shared service centre	**406,129**	430,198
Dividend income	**141**	267
Rental income from sub-leases	**586**	521
Expenses from operations before finance costs, depreciation, amortisation and exceptional items	**(338,382)**	(362,355)
Total Segment Adjusted EBITDA[A]	**68,474**	68,631
Revenue from shared services centre	**1,727**	-
Depreciation and amortisation	**(23,845)**	(23,683)
Interest income	**293**	315
Finance cost	**(9,300)**	(18,808)
EXCEPTIONAL ITEMS		
Gain on disposal of properties and businesses[B]	**1,320**	441
Masthead royalty charges[C]	**(12,216)**	(22,853)
Redundancies and associated costs[D]	**(6,009)**	(7,178)
Costs in relation to one off projects[E]	**(6,946)**	(5,312)
Asset write downs[F]	**-**	(3,028)
Profit / (Loss) before tax from continuing operations	**13,498**	(11,475)

(A) Adjusted Earnings before interest, tax, depreciation and amortisation (Adjusted EBITDA) from continuing operations and before exceptional items, is a non-GAAP measure that represents the Group's total segment result and is regularly monitored by the Chief Operating Decision Maker. (B) Gains on disposal of properties is the gain on sale of the Wairarapa Times Age, Whakatane News offset by loss on sale of property in Nelson in 2016, and the gain on sale of a property in Invercargill, New Zealand in 2015. (C) Costs charged from a subsidiary company of APN for use of NZ publishing mastheads. On 24 June 2016, the Group acquired certain NZ publishing mastheads on normal commercial terms from this subsidiary company of APN (refer to note 3.1). As a result, masthead royalty charges have not been incurred by the Group from 24 June 2016 onwards. (D) The redundancies and associated costs relate to the restructuring and integration of the New Zealand operations. (E) The costs related to one off projects refers primarily to costs of external consultants assisting with the listing, integration and co-location of NZME and the proposed merger with Fairfax New Zealand. (F) The asset write downs includes a write off of leasehold improvements in the Group as a result of the office co-location.

As the Group has one operating segment, the assets and liabilities as reported on the consolidated balance sheet are also the segment assets and liabilities, and the income tax expense in the consolidated income statement is also the segment income tax.

3.1 INTANGIBLE ASSETS

Significant Judgement
The Directors have determined that Masthead Brands and Brands have indefinite lives and are therefore not amortised. Refer to the accounting policies below for further information.

	GOODWILL $'000	SOFTWARE $'000	MASTHEAD BRANDS $'000	RADIO LICENCES $'000	BRANDS $'000	TOTAL $'000
AT 1 JANUARY 2015						
Cost	165,848	37,140	15,830	401,447	59,079	**679,344**
Accumulated amortisation and impairment	(95,614)	(28,609)	(15,830)	(30,245)	-	**(170,298)**
Net book value	70,234	8,531	-	371,202	59,079	**509,046**
FOR THE YEAR ENDED 31 DECEMBER 2015						
Opening net book amount	70,234	8,531	-	371,202	59,079	**509,046**
Additions	-	9,622	-	-	-	**9,622**
Disposals	-	(189)	-	-	-	**(189)**
Acquisition of controlled entities	11,237	-	-	72,408	-	**83,645**
Amortisation	-	(6,707)	-	(3,889)	-	**(10,596)**
Foreign exchange differences	(79)	14	-	5,637	-	**5,572**
Net book value	81,392	11,271	-	445,358	59,079	**597,100**
AS AT 31 DECEMBER 2015						
Cost	177,006	46,587	-	479,492	59,079	**762,164**
Accumulated amortisation and impairment	(95,614)	(35,316)	-	(34,134)	-	**(165,064)**
Net book value	81,392	11,271	-	445,358	59,079	**597,100**

	GOODWILL $'000	SOFTWARE $'000	MASTHEAD BRANDS $'000	RADIO LICENCES $'000	BRANDS $'000	TOTAL $'000
FOR THE YEAR ENDED 31 DECEMBER 2016						
Opening net book amount	81,392	11,271	-	445,358	59,079	**597,100**
Additions[A]	-	4,286	146,976	-	-	**151,262**
Disposals	-	-	-	-	-	**-**
Divestment of subsidiaries and operations[B]	(10,804)	-	-	(390,454)	-	**(401,258)**
Acquisition of controlled entities	-	-	-	-	-	**-**
Amortisation	-	(4,721)	-	(3,422)	-	**(8,143)**
Foreign exchange differences	195	34	-	(9,414)	-	**(9,185)**
Net book value	70,783	10,870	146,976	42,068	59,079	**329,776**
AS AT 31 DECEMBER 2016						
Cost	166,397	49,309	146,976	77,457	59,079	**499,218**
Accumulated amortisation and impairment	(95,614)	(38,439)	-	(35,389)	-	**(169,442)**
Net book value	70,783	10,870	146,976	42,068	59,079	**329,776**

(A) Prior to the implementation of the demerger, the Group acquired certain NZ publishing Masthead Brands on normal commercial terms from a subsidiary company of APN News & Media Limited ("APN"). These Masthead Brands were purchased for consideration of $146,976,000 together with a termination amount in regard to the masthead license of $2,065,575, which was incurred as the Group early terminated the masthead licences agreement with APN. (B) The Company completed its demerger from APN on 29 June 2016. Refer to Note 6.1 for further details around assets disposed and acquired as part of the Internal Restructure.

Accounting policies

Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired business at the date of the acquisition. Goodwill is not amortised but rather is subject to periodic impairment testing.

Software
Costs incurred in developing systems, acquiring software and licences are capitalised to software. Costs capitalised include materials, services, payroll and payroll related costs of employees involved in development. Amortisation is calculated on a straight line basis over the useful life of the asset (typically 3 to 10 years).

Radio licences
Commercial radio licences are accounted for as identifiable assets and are brought to account at cost. The current New Zealand radio licences have been renewed to 31 March 2031 and are being amortised on a straight line basis to that date.

Masthead Brands
Masthead Brands, being the titles, logo's and similar items of the integrated media assets of the Group are accounted for as identifiable assets and are brought to account at cost. The Directors believe the mastheads have indefinite lives as there is no foreseeable limit over which the mastheads are expected to generate net cash inflows for the Group. Accordingly, Masthead Brands are not amortised but are tested for impairment each year (refer to note 3.1.1 below).

Accounting policies (continued)

Brands

Brands are accounted for as identifiable assets and are brought to account at cost. The Directors have considered the geographic location, legal, technical and other commercial factors likely to impact the assets' useful lives and consider that they have indefinite lives. Accordingly, Brands are not amortised but are tested for impairment each year (refer to note 3.1.1 below).

3.1.1 Year-end impairment review

Significant Judgement

As disclosed in note 2.4 the Directors have determined that, following the demerger and internal restructure, the Group has one reportable segment – being "Integrated Media and Entertainment". The Directors have also determined that this is the only cash generating unit ("CGU") for impairment testing because this is the lowest level for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets. Accordingly all goodwill and intangibles with indefinite useful lives are allocated to one CGU. This note also includes details of certain key estimates and assumptions made during the impairment testing calculations.

A comprehensive impairment review was conducted at 31 December 2016. The recoverable amount of the CGU (which includes goodwill and indefinite life intangible assets) is determined based on the higher of fair value less costs to sell and value in use calculations using management budgets and forecasts. The recoverable amount of the CGU is compared against the carrying value of the CGU to determine whether there has been an impairment.

Key estimates and assumptions

	2016 Post-tax discount rate	**2016** Long-term growth rate	**2015** Post-tax discount rate	**2015** Long-term growth rate
Integrated Media and Entertainment CGU	**9.5%**	**0%**	[A]	[B]

Year 1 cash flows:

Based on Board approved annual budget.

Years 2 to 5 cash flows

Revenue forecasts are prepared based on management's current expectations, with consideration given to internal information and relevant external industry data and analysis. In particular:

- Print revenues are forecast to decline in line with recent experience and industry trends.
- Digital revenues are forecast to grow based on recent experience and industry trends.
- Radio and experiential revenues are forecast to grow based on management expectations of performance as a result of investment in key initiatives.

Expenses are forecast based on management expectations, with consideration given to internal information and relevant external data.

(A) Prior to the Demerger from APN, the Group undertook impairment testing for four CGU's. The post-tax discount rate used in those calculations ranged from 10% to 10.5%. (B) Prior to the Demerger from APN, the Group undertook impairment testing for four CGU's. The long-term growth rate used in those calculations ranged from 0% to 2.5%.

NOTES TO THE **CONSOLIDATED FINANCIAL STATEMENTS**

3.1.2 Impact of reasonably possible change in key assumptions

The forecasts are sensitive to certain key assumptions, particularly forecast print and digital revenues. If the ratio of the growth in digital revenue as compared to the decline in print revenue reduced by 8% over the period of forecast, and no other mitigation activities were taken into account, then the recoverable amount would be equal to the carrying amount of the CGU and any further fall in this ratio would result in impairment. Based on all available information the Directors do not consider this to be a reasonably possible scenario. Accordingly, based on the assessment performed, there is no impairment.

Accounting policies

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment and whenever there is an indication that they may be impaired. Intangible assets that are subject to amortisation are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may exceed its recoverable amount. An impairment charge is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Currently, the group has only one CGU, being Integrated Media and Entertainment. Non-financial intangible assets, other than goodwill, that suffer impairment are reviewed for possible reversal of the impairment at each reporting date.

3.2 PROPERTY, PLANT AND EQUIPMENT

	FREEHOLD LAND[B] $'000	BUILDINGS[B] $'000	PLANT AND EQUIPMENT[C] $'000	**TOTAL $'000**
AT 1 JANUARY 2015				
Cost or fair value	3,105	1,514	398,812	**403,431**
Accumulated depreciation and impairment	-	(357)	(311,571)	**(311,928)**
Net book amount	3,105	1,157	87,241	**91,503**
YEAR ENDED 31 DECEMBER 2015				
Opening net book amount	3,105	1,157	87,241	**91,503**
Additions	-	31	27,399	**27,430**
Acquisitions of controlled entity	-	-	426	**426**
Disposals	(341)	(771)	(2,365)	**(3,477)**
Depreciation	-	(290)	(17,308)	**(17,598)**
Revaluations	224	375	-	**599**
Foreign exchange differences	2	(22)	353	**333**
Net book amount	2,990	480	95,746	**99,216**
AS AT 31 DECEMBER 2015				
Cost or fair value	2,990	480	404,483	**407,953**
Accumulated depreciation and impairment	-	-	(308,737)	**(308,737)**
Net book amount	2,990	480	95,746	**99,216**
YEAR ENDED 31 DECEMBER 2016				
Opening net book amount	2,990	480	95,746	**99,216**
Additions	-	1,576	10,160	**11,736**
Disposals	(752)	(98)	(172)	**(1,022)**
Divestment of subsidiaries and operations[A]	(1,133)	(714)	(14,928)	**(16,775)**
Depreciation	-	(2,217)	(15,832)	**(18,049)**
Transfers and other adjustments[C]	302	13,335	(12,701)	**936**
Foreign exchange differences	(26)	(17)	(322)	**(365)**
Net book amount	1,381	12,345	61,951	**75,677**
AS AT 31 DECEMBER 2016				
Cost or fair value	1,381	14,562	386,520	**402,463**
Accumulated depreciation and impairment	-	(2,217)	(324,569)	**(326,786)**
Net book amount	1,381	12,345	61,951	**75,677**

(Footnotes on the next page)

NOTES TO THE **CONSOLIDATED FINANCIAL STATEMENTS**

(A) The Company completed its demerger from APN News & Media Limited (APN) on 29 June 2016. Refer to Note 6.1 for further details around assets disposed and acquired as part of the Internal Restructure. (B) Freehold land and buildings are held at fair value based on independent valuations. If land and buildings were stated on the historical cost basis, the net book value of land would have been $658,270 (2015: $939,270) and the net book value of buildings would have been $688,435 (2015: $1,039,690). The last revaluation was performed for the year ended 31 December 2015. (C) Included in plant and equipment is capitalised work in progress with a net book value of $7,285,650 (2015: $25,460,875) which is transferred to the relevant asset category (including software) once the project is complete. Transfers and other adjustments primarily comprise of transfers from work in progress during the year. All transfers from work in progress in 2015 related to plant and equipment and are therefore reflected in the plant and equipment additions.

Accounting policies

Land is not depreciated. Depreciation on other assets is calculated using the straight line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

Furniture and fittings	3 to 25 years
Buildings	10 to 25
Leasehold improvements	3 to 25 years
Motor vehicles	5 to 10 years
Plant & equipment	3 to 25 years

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date. Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the income statement.

Land and buildings are shown at fair value, based on periodic valuations (at least every 3 years) by external independent valuers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Increases in the carrying amounts arising on revaluation of land and buildings are credited to revaluation reserves in equity. To the extent that the increase reverses a decrease previously recognised in the income statement, the increase is first recognised in the income statement. Decreases that reverse previous increases of the same asset are first charged against the revaluation reserves directly in equity to the extent of the remaining reserve attributable to the asset. All other decreases are charged to the income statement.

Plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the assets carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be reliably measured. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Impairment of assets

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Assets that are subject to depreciation are tested for impairment whenever changes in circumstances indicate that the asset's carrying amount may exceed its recoverable amount. An impairment charge is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Assets that suffer an impairment are reviewed for possible reversal of the impairment at each reporting date.

3.3 TRADE AND OTHER RECEIVABLES

	2016 $'000	2015 $'000
Trade receivables	**45,043**	96,382
Provision for impairment	**(1,042)**	(2,146)
	44,001	94,236
Amounts due from related companies (note 7.1.2)	**750**	304,931
Other receivables and prepayments	**8,880**	10,703
Total current trade and other receivables	**53,631**	409,870
Movements in the provision for impairment are as follows:		
Balance at beginning of the year	**2,146**	1,805
Provision for impairment expense	**596**	1,356
Receivables written off	**(1,700)**	(1,015)
Provision for impairment	**1,042**	2,146

3.3.1 Classification

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Receivables and other financial assets are classified as subsequently measured at amortised cost on the basis of both the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Loans to related parties are unsecured, interest bearing and repayable at call. If collection of the amounts is expected in one year or less they are classified as current assets.

3.3.2 Fair values of trade and other receivables

Due to the short-term nature of the current receivables, their carrying amount is considered to be the same as their fair value.

3.3.3 Impairment and risk exposure

The maximum exposure to credit risk at the reporting date is the higher of the carrying value and fair value of each receivable. The Group does not hold any collateral as security. Refer to note 4.8.3 for credit risk and note 4.9 for fair value information.

Accounting policies

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Receivables are monitored on an individual basis and the company considers the probability of default upon initial recognition of the receivable and throughout the period and provides for receivables expected to be impaired. The amount of loss is recognised in the income statement within other expenses. When a trade receivable is uncollectible, it is written off against the provision account for trade receivables. Subsequent recoveries of amounts previously written off are credited against other income in the income statement.

3.4 TRADE AND OTHER PAYABLES

	2016 $'000	2015 $'000
CURRENT PAYABLES		
Lease liability	**833**	833
Amounts due to related companies (note 7.1.2)	**2,654**	322,304
Employee entitlements	**7,104**	11,302
Trade payables and accruals	**55,788**	91,758
Total current trade and other payables	**66,379**	426,197
NON-CURRENT PAYABLE		
Lease liability	**13,423**	12,859
Employee entitlements	**-**	1,075
Total non-current trade and other payables	**13,423**	13,934

Refer to note 4.8 for information regarding risk exposure, note 4.9 for further fair value considerations and note 4.6 for lease commitments.

Accounting policies

Trade and other payables

Trade payables, including accruals not yet billed, are recognised when the Group becomes obliged to make future payments as a result of a purchase of assets or services. Trade payables are carried at amortised cost which is the fair value of the consideration to be paid in the future for goods and services received. Trade payables are unsecured and are generally settled within 30 to 45 days.

Leases

Finance leases are leases of property, plant and equipment where the Group, as lessee, has substantially all the risk and rewards of ownership. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. A corresponding liability is also established and each lease payment is allocated between the liability and finance charges. The interest element is charged to the income statement over the period of the lease. Leased assets are amortised on a straight line basis over the term of the lease, or where it is likely that the Group will obtain ownership of the asset, the life of the asset. Leased assets held at balance date are amortised over the shorter of the estimated useful life or the lease term. The Group does not currently have any material finance leases.

Operating leases are other leases under which all the risks and benefits of ownership are effectively retained by the lessor. Operating lease payments, excluding contingent payments are charged to the income statement on a straight line basis over the period of the lease, net of lease incentives, which are classified as payables and amortised over the life of the associated lease.

Lease incentives are presented as part of the lease liabilities and are recognised in the income statement on a straight line basis over the lease term.

Employee entitlements

Wages and salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be wholly settled within 12 months from the reporting date are recognised in payables and accruals in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Amounts to be settled more than 12 months after the reporting date are recognised as a non-current payable. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

Short-term incentive plans

A liability for short-term incentives is recognised in trade payables when there is an expectation of settlement and at least one of the following conditions is met:

- there are contracted terms in the plan for determining the amount of the benefit;
- the amounts to be paid are determined before the time of completion of the financial statements; or
- past practice gives clear evidence of the amount of the obligation.

Liabilities for short-term incentives are expected to be settled within 12 months and are recognised at the amounts expected to be paid when they are settled.

Refer to note 4.3 for disclosures relating to share based payments, note 7.1.1 for key management compensations and note 6.1 for further information on the demerger.

3.5 NET TANGIBLE ASSETS

Net tangible assets per share is a non-GAAP measure that is required to be disclosed by the NZX Listing Rules.

The calculation of the Group's net tangible assets per share and its reconciliation to the consolidated balance sheet is presented below:

	2016 $'000	2015 $'000
AS AT 31 DECEMBER		
Total assets	**483,540**	1,295,428
Less intangible assets	**(329,776)**	(597,100)
Less total liabilities	**(197,981)**	(663,604)
Net tangible assets	**(44,217)**	34,724
Number of shares issued (in thousands)[A]	**196,011**	196,011
Net tangible assets per share	**($0.23)**	$0.18

(A) Due to the share consolidation in the current period (refer to note 4.1), the number of ordinary shares outstanding during the year ended 31 December 2015 was retrospectively adjusted to enhance comparability. Had the shares outstanding as at 31 December 2015 of 378,550,000 been used, the net tangible assets per share as at 31 December 2015 would be $0.09.

4.0 CAPITAL MANAGEMENT

4.1 SHARE CAPITAL

AUTHORISED, ISSUED AND PAID UP SHARE CAPITAL	**2016 NUMBER**	2015 NUMBER	**2016 $'000**	2015 $'000
Balance at the beginning of the period	**378,550**	378,550	**360,363**	360,363
Shares consolidated as part of the demerger[A]	**(182,539)**	-	**-**	-
Balance at the end of the period	**196,011**	378,550	**360,363**	360,363

(A) On demerger, NZME shares were distributed to eligible APN shareholders at a ratio of one NZME share for every one APN share. Also refer to note 6.1 for further details on the demerger.

Accounting policies
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

4.2 RESERVES

	2016 $'000	2015 $'000
SHARE BASED PAYMENTS RESERVE		
Balance at the beginning of the year	**-**	-
Share based payment expense	**144**	-
Balance at end of the year	**144**	-
ASSET REVALUATION RESERVE		
Balance at beginning of the year	**1,186**	1,185
Revaluation of freehold land and buildings	**-**	356
Transfer to foreign currency translation reserve	**-**	(17)
Transfer to retained earnings due to asset disposals and discontinued operations	**(464)**	(338)
Balance at end of year	**722**	1,186
FOREIGN CURRENCY TRANSLATION RESERVE		
Balance at beginning of the year	**(44,537)**	(48,160)
Foreign exchange transfers	**44,844**	17
Net exchange difference on translation of foreign operations	**2**	3,606
Total movement for the year	**44,846**	3,623
Balance at end of year	**309**	(44,537)
TRANSACTIONS WITH NON-CONTROLLING INTERESTS RESERVE		
Balance at beginning of the year	**8,359**	8,359
Transfer to retained profit relating to discontinued operations	**(14,732)**	-
Balance at end of year	**(6,373)**	8,359
Total reserves	**(5,198)**	(34,992)

4.2.1 Nature and purpose of reserves

Share based payments reserve
The share based payments reserve is used to recognise the fair value of the performance rights issued but not yet vested as described in note 4.3.

Asset revaluation reserve
The asset revaluation reserve is used to record increments and decrements on the revaluation of non-current assets, as described in note 3.2. The balance standing to the credit of the reserve may be used to satisfy the distribution of bonus shares to shareholders and is only available for the payment of cash dividends in limited circumstances as permitted by law. In the event of the sale of an asset, the revaluation surplus is transferred to retained earnings.

Foreign currency translation reserve
Exchange differences arising on translation of any foreign controlled entities are taken to the foreign currency translation reserve, as described in the basis of preparation.

Transactions with non-controlling interests reserve
This reserve is used to record the differences described in note 6.4.1 of the basis of preparation which may arise as a result of transactions with non-controlling interests that do not result in a loss of control.

4.3 SHARE BASED PAYMENTS

	2016		**2015**	
	AVERAGE PRICE PER RIGHT (CENTS)	**NUMBER OF RIGHTS**	AVERAGE PRICE PER RIGHT (CENTS)	NUMBER OF RIGHTS
As at 1 January	**-**	**-**	-	-
Granted	**0.58**	**745,301**	-	-
Forfeited	**-**	**-**	-	-
Exercised	**-**	**-**		
As at 31 December	**0.58**	**745,301**	-	-

Share rights outstanding at the end of the year have the following expiry date and fair value at grant date:

			PERFORMANCE RIGHTS	
GRANT DATE	VESTING DATE	VALUE OF RIGHT AT GRANT DATE (CENTS)	**2016 $'000**	"2015 $'000"
20 December 2016	31 Dec 2017	0.58	**432**	-
As at 31 December			**432**	-
Share based payment expense recognised in the current period (refer to note 4.2)			**144**	-

	2016	2015
Weighted average remaining contractual life of rights outstanding at the end of the period	**12 months**	none

4.3.1 Background

Long-term incentive plans - performance rights (pre-Demerger)

Share-based compensation benefits were provided to employees by APN News & Media Limited ("APN") prior to the demerger via a Long-term Incentive ("LTI") plan. The fair value of rights granted under the LTI plan is recognised as an employee benefit expense with a corresponding increase in equity of APN prior to the demerger. The fair value is measured at grant date and recognised over the period during which the employee becomes unconditionally entitled to the rights.

Total incentive plan ("TIP") (post-Demerger)

As described in the Explanatory Memorandum for the Demerger of NZME by APN, the Group has now adopted an executive incentive structure similar to that used by APN. The TIP is designed to align the reward outcomes with the shareholders' interest and to support the achievement of the Group's business strategy and was approved by the Board on 20 December 2016. Under the TIP, and at the absolute discretion of the Board, the CEO and other executive key management personnel are eligible to participate in the TIP. Eligible participants have a target award opportunity, which varies between 50% and 100% of fixed remuneration, depending on the participant's role and responsibilities. A new TIP opportunity will be offered at the commencement of each financial year. The award is dependent on performance over a one year period ("performance period") and there is no opportunity for retesting. Performance is formally evaluated on the date that the full year financial performance is announced to the market.

Performance measures

- Financial performance conditions (75%): Performance will be measured against earnings before interest, tax, depreciation and amortisation ("EBITDA"). This portion is determined based on actual EBITDA against budgeted EBITDA on the following scale:

% of EBITDA	% of target opportunity awarded
• < 95%	0%
• > 95% to 100%	Pro-rata vesting between 25% and 100%
• > 100% to 110%	Pro-rata vesting between 100% and 150%

- Non-financial performance conditions (25%): Performance will be measured against specific measures, as determined for each participant at the commencement of the performance period.

Awards under the TIP are granted to participants following the assessment of performance. To the extent the performance measures are met:

- 50% of awards are made in cash; and
- 50% of awards are granted in rights to acquire fully paid ordinary shares in the Company for $nil consideration ("Rights").

The performance period for the 2016 awards is a 6 month period which commenced on 1 July 2016. Going forward, the performance period will be a 12 month period commencing at the start of the financial year. Subject to remaining employed by the Company for a further one year period following the performance period ("service period"), rights will vest and will be kept in trust for a further two years ("deferral period"). Vested rights will automatically convert into ordinary shares for $nil consideration at the end of the deferral period without the requirement for the participant to exercise their Rights. Participants will receive an additional allocation of shares at vesting equal to the dividends paid on vested Rights over the Service Period. The Company may reduce unvested equity awards in certain circumstances such as gross misconduct, material misstatement or fraud. The Board may also reduce unvested awards to recover amounts where performance that led to payments being awarded is later determined to have been incorrectly measured or not sustained. Awards are normally forfeited if the participant leaves before the end of the performance period, except in limited circumstances that are approved by the Board on a case-by-case basis. If a participant leaves during the service period, the rights that will vest will be determined on a pro-rata basis based on when they leave during the service period. If a participant leaves during the deferral period, no rights will be forfeited, but rights will still only convert into ordinary shares at the end of the deferral period.

The fair value of the rights at grant date was estimated based on the NZME share price as at 20 December 2016, being the date after the Board approved the TIP and the terms were communicated to the eligible participants. The number of rights awarded are based on the Volume Weighted Average Price ("VWAP") of the Company's shares.

4.3.2 Model inputs

The following is a summary of the key inputs in calculating the share-based payment expense under the 2016 for the year:

• Performance Period	1 July 2016 to 31 December 2016
• Service Period	1 January 2017 to 31 December 2017
• Vesting Period (being the Performance Period and the Service Period)	1 July 2016 to 31 December 2017
• Deferral Period	1 January 2018 to 31 December 2019
• Share price at grant date	58 cents
• VWAP	70 cents

- It is assumed that all participating employees will remain employed with the Company until the end of the Vesting Period.

Accounting policies

Long-term incentive plans - performance rights (pre-Demerger)

The fair value at grant date is determined using a combination of the Binomial option pricing model and the Monte-Carlo option pricing model which take into account the exercise price, the term of the right, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the right, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the right.

The fair value of the rights granted is adjusted to reflect the market vesting condition, but excludes the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of rights that are expected to become exercisable. At each reporting date, its estimate of the number of rights that are expected to become exercisable are revised. The employee benefit expense recognised each period takes into account the most recent estimate. The impact of the revision to the original estimates, is recognised in profit or loss with a corresponding adjustment to equity.

Total incentive plan (TIP) (post-Demerger)

The fair value of rights granted under the TIP plan is recognised as an employee benefits expense with a corresponding increase in equity over the vesting period, being the service period and the deferral period. The fair value is measured at grant date and the number of rights are determined using the volume weighted average price of NZME's shares on the NZX.

The fair value at grant date is determined taking into account the share price, any market performance conditions and any non-vesting conditions, but excluding the impact of any service and non-market performance vesting conditions.

Non-market vesting conditions are included in assumptions about the number of rights that are expected to vest. At each reporting date, the Group revises its estimate of the number of rights that are expected to become exercisable.

The employee benefits expense recognised each period takes into account the most recent estimate. The impact of the revision to the original estimates, is recognised in profit or loss with a corresponding adjustment to equity.

4.4 DIVIDENDS

4.4.1 Dividends paid

On 24 June 2016, the Company declared and settled a dividend of $191,257,897 to APN International Pty Limited. This occurred as part of the Internal Restructure. Refer to Note 6.1 for further details. On 25 August 2016, the Board declared an interim dividend of 3.5 cents per fully paid ordinary share. This was paid on 28 October 2016. No dividends were declared or paid in 2015.

4.4.2 Dividends declared after balance date

On 23 February 2016, the Board of Directors declared a fully imputed final dividend of 6 cents per share, to be paid on 28 April 2017 to registered shareholders as at 11 April 2017. The Board of Directors also declared a supplementary dividend of 1.06 cents per share, to be paid on 28 April 2017 to registered shareholders as at 11 April 2017, to those shareholders who are not tax residents in New Zealand. The payment of a supplementary dividend effectively puts non-resident shareholders in the position they would have been had they received imputation credits (which are only available to resident shareholders).

4.4.3 Franking and imputation credits

	2016 '000	2015 '000
Imputation credits available for subsequent reporting periods based on the New Zealand 28% tax rate for the Group	**NZ$ 4,739**	NZ$2,709
Franking credits available to the Company for subsequent reporting periods based on the Australia 30% tax rate for the Group	**AU$ 0 [A]**	AU$ 0 [A]

(A) Although the Company does not have any franking credits available for use, other entities within the Group has AU$10,828,676 (2015:AU$10,824,821) available that might become available to the Company in future periods.

4.5 INTEREST BEARING LIABILITIES

	2016 $'000	2015 $'000
Current interest bearing liabilities		
Bank loans – secured	**-**	1,257
Total current interest bearing liabilities	**-**	1,257
Non-current interest bearing liabilities		
Bank loans – secured	**112,486**	184,500
	112,486	184,500
Deduct:		
Capitalised borrowing costs	**(318)**	-
Total non-current interest bearing liabilities	**112,168**	184,500
NET DEBT		
Current interest bearing liabilities	**-**	1,257
Non-current interest bearing liabilities	**112,486**	184,500
Capitalised borrowing costs	**(318)**	-
Cash and cash equivalents	**(16,242)**	(11,065)
Total debt less cash and cash equivalents	**95,926**	174,692

Prior to the Demerger, NZME was funded by a combination of internal cash flows and external financing arrangements. Following the Demerger, funding is from a combination of its own cash reserves and NZ$160 million bilateral bank loan facility, which NZME entered into on 29 June 2016, of which $112 million is drawn and $48 million is undrawn as at 31 December 2016. The facility expires on 1 January 2020.

The interest rate for the drawn facility is the applicable bank screen rate plus credit margin.

The NZME Bilateral Facilities contain undertakings which are customary for a facility of this nature including, but not limited to, provision of information, negative pledge and restrictions on priority indebtedness and disposals of assets.

The assets of the Group are collateral for the interest bearing liability.

In addition, the Group must comply with financial covenants (a net debt to EBITDA ratio and an EBITDA to net interest expense ratio) for each 12 month period ending on 30 June and 31 December. The Group has complied with these covenants.

Capitalised borrowing costs related to the refinancing were $0.3 million.

Consideration received on the sale of the Partnership Interests (refer to note 6.1.1) to APN prior to Demerger, was used to pay down secured bank loans. This is the main reason for the decrease in interest bearing liabilities from 31 December 2015.

Accounting policies

Borrowings are initially recognised at fair value less attributable transaction costs and subsequently measured at amortised cost. Any difference between cost and redemption value is recognised in the income statement over the period of the borrowing on an effective interest basis.

Costs incurred in connection with the arrangement of borrowings are deferred and amortised over the period of the borrowing. These costs are netted off against the carrying value of borrowings in the balance sheet.

4.6 COMMITMENTS

4.6.1 Lease commitments

The group leases certain premises under operating leases. The leases have varying terms, escalation clauses and renewal rights. Excess space is sub-let to third parties under non-cancellable operating leases.

	2016 $'000	2015 $'000
Commitments for minimum lease payments in relation to rental commitments contracted for at the reporting date and not recognised as liabilities, payable:		
Not later than one year	**16,406**	18,390
Later than one year but not later than five years	**52,307**	49,976
Later than five years	**71,856**	80,692
Commitments not recognised in the financial statements	**140,569**	149,058

4.7 CASH FLOW INFORMATION

	2016 $'000	2015 $'000
RECONCILIATION OF CASH		
Cash at end of the year, as shown in the statements of cash flows, comprises:		
Cash and cash equivalents	**16,242**	11,065
RECONCILIATION OF NET CASH INFLOWS (OUTFLOWS) FROM OPERATING ACTIVITIES TO PROFIT / (LOSS) FOR THE YEAR:		
Profit / (loss) for the year	**74,543**	42,897
Depreciation and amortisation expense	**26,193**	28,194
Borrowing cost amortisation	**53**	-
Net gain on sale of non-current assets	**9**	(492)
Gain on sale of business after tax	**(192,519)**	-
Reclassification of foreign currency translation reserve	**65,326**	-
Change in current / deferred tax payable	**41,289**	(3,969)
Current tax funded through related party balances	**(12,842)**	24,870
Foreign exchange losses / (gains)	**1,086**	(763)
Asset write offs and business closure	**15**	597
Revaluation/impairment of financial assets	**(2,245)**	(7,067)
Change in fair value of financial instrument	**31,481**	12,623
Share based payment expense	**144**	-
Changes in assets and liabilities net of effect of acquisitions:		
Trade and other receivables	**51,104**	(8,572)
Inventories	**730**	(634)
Prepayments	**(306)**	758
Trade and other payables and employee benefits	**(22,379)**	32,476
Net cash inflows/(outflows) from operating activities	**61,682**	120,918

Accounting policies
For the purposes of presentation on the statement of cash flows, cash and cash equivalents includes cash on hand and short term deposits held at call with finance institutions, net of bank overdrafts.

4.8 FINANCIAL RISK MANAGEMENT

4.8.1 Capital and Risk Management

The Group's objectives when managing capital are to:

- Safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders; and
- Maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Refer to note 4.5 for undrawn facilities to which the group has access to as well as the net debt calculation that is used by the group to capital requirements.

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk, and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and foreign exchange and ageing analysis for credit risk.

Financial risk management is carried out by the Group Treasury function. The Group Treasury function meet regularly with the Group CFO to cover specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

4.8.2 Market risk

(a) Cash flow and fair value interest rate risk
Long term borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed interest rates expose the Group to fair value interest rate risk. The Group makes decisions regarding variable or fixed rate debt as and when debt contracts are entered into. Current interest bearing debt are fixed for 30 days on a rolling basis.

Based on the outstanding net floating debt at 31 December 2016, a change in interest rates of +/-1% per annum with all other variables being constant would impact post-tax profit and equity by $1.1 million lower/higher (2014: $1.5 million lower/higher).

(b) Foreign exchange risk
Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities that are denominated in a currency that is not the entity's functional currency. Individual transactions are assessed and forward exchange contracts are used to hedge the risk where deemed appropriate.

Whilst the Group as a whole (pre-Demerger) had assets and liabilities in multiple currencies, individual entities in the Group did not have a significant foreign exchange exposure to receivables or payables in currencies that are not their functional currency. Post-Demerger, the Group's operations in foreign jurisdictions have significantly reduced to the extent that the Group does not have a significant foreign exchange exposure.

(c) Price risk
The Group is not exposed to significant price risk. There is some risk associated with other financial assets however this is not deemed to be significant as other financial assets are categorised as level 3 in the fair value hierarchy and have been impaired, where applicable, to the present value of expected future cash flows.

4.8.3 Credit Risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions. For banks and financial institutions, the creditworthiness is assessed prior to entering into arrangements and approved by the Board. For other customers, risk control assesses the credit quality, taking into account financial position, past experience and other factors. The utilisation of credit limits is regularly monitored and the Group does not normally obtain collateral from its customers.

The table below sets out additional information about the credit quality of trade receivables net of the provision for doubtful debts:

	CURRENT	LESS THAN ONE MONTH	PAST DUE			TOTAL
			ONE TO THREE MONTHS	**THREE TO SIX MONTHS**	**OVER SIX MONTHS**	
	$'000	$'000	**$'000**	**$'000**	**$'000**	$'000
2016						
Expected loss rate	0.0%	0.7%	6.5%	47.8%	62.0%	
Trade Receivables	23,890	17,186	2,616	619	732	**45,043**
Impaired receivables		(121)	(171)	(296)	(454)	**(1,042)**
	23,890	17,065	2,445	323	278	**44,001**
2015						
Expected loss rate	0.1%	1.4%	7.0%	65.3%	21.8%	
Trade Receivables	63,067	24,131	5,708	1,397	2,079	**96,382**
Impaired receivables	(35)	(345)	(401)	(912)	(453)	**(2,146)**
	63,032	23,786	5,307	485	1,626	**94,236**

Trade receivables are generally settled within 30 to 45 days. The Directors consider the carrying amount of trade receivables approximates their net fair value. Receivables are monitored on an individual basis and the company considers the probability of default upon initial recognition of the receivable and throughout the period and provides for receivables considered to be impaired.

As of 31 December 2016, trade receivables of $3,046,000 (2015: $7,418,000) were past due but not impaired.

For the year ended 31 December 2015, credit risk associated with the receivable balances from other related entities and the maximum exposure to credit risk is the total of the related party receivables. The maximum exposure to credit risk at 31 December 2016 is equal to the carrying amount of cash and cash equivalents and trade and other receivables. The Group is not exposed to any concentrations of credit risk within cash and cash equivalents or trade and other receivables.

Credit risk further arises in relation to financial guarantees given to certain parties from time to time.

4.8.4 Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying business, Group Treasury aims at maintaining flexibility in funding by keeping committed credit lines available. Management monitors rolling forecasts of the Group's liquidity reserve on the basis of expected cash flows.

The tables below analyse the Group's financial liabilities including interest to maturity into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the tables are the contractual undiscounted cash flows.

	LESS THAN ONE YEAR $'000	BETWEEN ONE AND TWO YEARS $'000	BETWEEN TWO AND FIVE YEARS $'000	OVER FIVE YEARS $'000
31 DECEMBER 2016				
Trade payables	55,788	-	-	-
Bank loans	4,480	4,480	116,966	-
Related party loans	-	-	-	-
Gross liability	60,268	4,480	116,966	-
Less: interest	(4,480)	(4,480)	(4,480)	
Total financial liabilities	55,788	-	112,486	-
31 DECEMBER 2015				
Trade payables	91,758	-	-	-
Bank loans	9,694	9,694	199,054	-
Related party loans	322,304	-	-	-
Gross liability	423,756	9,694	199,054	-
Less: interest	(9,746)	(9,694)	(14,554)	
Total financial liabilities	414,010	-	184,500	-

4.9 FAIR VALUE MEASUREMENT

The Group measures and recognises the following assets and liabilities at fair value on a recurring basis:

- Financial assets at fair value through profit or loss (FVTPL);
- Land and buildings.

4.9.1 Fair value hierarchy

NZ IFRS 13 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly, and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

4.9.2 Recognised fair value measurements

	2016 $'000	2015 $'000
RECURRING FAIR VALUE MEASUREMENTS (LEVEL 3)		
FINANCIAL ASSETS		
Financial assets at fair value through profit or loss		
Shares in other companies[A]	-	31,701
Financial Instrument[B]	-	94,095
Total financial assets[C]	-	125,796
NON-FINANCIAL ASSETS		
Freehold land and buildings		
Freehold land	**1,381**	2,990
Buildings	**12,345**	480
Total non-financial assets	**13,726**	3,470

(A) Shares in other companies represent ownership interests in companies that are not consolidated or equity accounted. These were disposed of as part of the sale of the Group's interest in Australian Radio Network on 24 June 2016. Refer to Note 6.1 for further details. (B) Financial instrument held by Level 4 Partnership refers to an investment in a debenture issued by Nathco Holdings Pty Ltd (Nathco), a member of the APN News and Media Group. The terms of debenture entitle the Level 4 Partnership to receive 95% of the profits of Nathco. This was disposed of on 24 June 2016, refer to note 6.1. (C) Other financial assets of $5,988,765 (Dec 2015: $2,590,000) are held at cost and therefore have been excluded from this table.

All fair value measurements referred to above are in Level 3 of the fair value hierarchy and there were no transfers between levels. The Group's policy is to recognise transfers between fair value hierarchy levels as at the end of the reporting period.

4.9.3 Disclosed fair values

The Group also has a number of assets and liabilities which are not measured at fair value but for which fair values are disclosed in these notes.

The carrying amounts of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. There are no outstanding non-current receivables as at 31 December 2016 or 31 December 2015 (level 3).

The fair value of interest bearing liabilities disclosed in note 4.5 is estimated by discounting the future contractual cash flows at the current market interest rates that are available to the group for similar financial instruments. For the period ending 31 December 2016, the borrowing rates were determined to be between 3.5% and 4% (2015: between 5.0% and 6.1%), depending on the type of borrowing. The fair value of borrowings approximates the carrying amount, as the impact of discounting is not significant (level 2).

4.9.4 Valuation techniques used to derive at level 2 and 3 fair values

Recurring fair value measurements

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for certain shares in other corporations disclosed in notes 4.9.2 and 6.4.3, which are valued using discount rates, forecast cash flows, EBITDA multiples estimated by management based on comparable transactions and industry data. These were disposed of as part of the demerger. Refer to note 6.1. Specific valuation techniques used to value financial instruments include:

- The use of quoted market prices or dealer quotes for similar instruments; and
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

The Group obtains independent valuations at least every three years for its freehold land and buildings (classified as property, plant and equipment in note 3.2), less subsequent depreciation for buildings. This is considered sufficient regularity to ensure that they carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. All resulting fair value estimates for properties are included as Level 3.

5.0 TAXATION

5.1 INCOME TAX

	2016 $'000	2015 $'000
REPORTED INCOME TAX EXPENSE / (BENEFIT) COMPRISES:		
Current tax expense / (benefit)	**70,791**	26,536
Deferred tax expense / (benefit)	**8,175**	(316)
(Over) / under provision in prior years	**(3,310)**	(648)
Income tax expense	**75,656**	25,572
Income tax is attributable to:		
Profit from continuing operations	**64,050**	(1,207)
Profit from discontinued operations	**11,606**	26,779
Total income tax expense	**75,656**	25,572
INCOME TAX EXPENSE DIFFERS FROM THE AMOUNT PRIMA FACIE PAYABLE AS FOLLOWS:		
Profit from operations before tax		
From continuing operations	**13,498**	(11,475)
From discontinued operations	**136,701**	79,944
	150,199	68,469
Prima facie income tax at 28%	**42,056**	19,171
IRD settlement	**16,968**	-
Non assessable asset sales and exempt distribution receipts	**(275)**	(773)
Non-deductible impairment / revaluation	**-**	3,748
Non-deductible expenses	**1,554**	664
Derecognition of deferred tax on losses and foreign tax credits	**62,035**	-
Derecognition of deferred tax on intangible assets	**(15,803)**	-
Differences in international tax rates	**(2)**	2,943
Effects of accounting for discontinued operations	**(26,498)**	-
Other	**(1,069)**	467
(Over) / under provision in prior years	**(3,310)**	(648)
Income tax expense	**75,656**	25,572

5.2 DEFERRED TAX

Deferred tax assets and liabilities are attributable to:

	BALANCE	RECOGNISED IN INCOME $'000	RECOGNISED IN EQUITY $'000	OTHER MOVEMENTS $'000	**BALANCE $'000**
2015					
Tax credits	912	978	-	-	**1,890**
Tax losses	60,576	1,593	-	4,980	**67,149**
Employee benefits	2,398	589	-	-	**2,987**
Doubtful debts	520	116	-	-	**636**
Accruals / restructuring	(1,563)	(849)	-	3,117	**705**
Intangible assets	(41,396)	1,529	(171)	(3,117)	**(43,155)**
Property Plant and Equipment	(12,963)	(4,787)	-	8,890	**(8,860)**
Other	(3,640)	1,147	-	(8,890)	**(11,383)**
	4,844	316	(171)	4,980	**9,969**
2016					
Tax credits	1,890	(1,887)	-	-	**3**
Tax losses	67,149	(61,549)	-	(5,600)	**-**
Employee benefits	2,987	(1,554)	-	-	**1,433**
Doubtful debts	636	(345)	-	-	**291**
Accruals / restructuring	705	397	-	-	**1,102**
Intangible assets	(43,155)	42,031	595	-	**(529)**
Property Plant and Equipment	(8,860)	3,490	-	-	**(5,370)**
Other	(11,383)	11,242	-	-	**(141)**
	9,969	(8,175)	595	(5,600)	**(3,211)**

Group deferred income tax assets and liabilities are presented net in the analysis above. These include net deferred income tax liabilities of $33,778,000 (2015: $36,944,000) arising from the Group's Australian subsidiaries. Also refer to note 6.1 for further information regarding the Demerger. For the year ended 31 December 2015 the net deferred tax asset of $9,969,000 consisted of a deferred tax asset of $46,065,000 and a deferred tax liability of $36,096,000 as shown on the balance sheet.

There are unrecognised tax losses of $1,811,935 (AUD1,744,812) in an Australian subsidiary of the Company which have not been recognised as there is uncertainty as to their future recoverability. The deferred tax asset on these losses were not offset against the deferred tax liabilities of the rest of the Group because they are levied by a different tax authority.

5.3 IRD SETTLEMENT

The tax expense from continuing operations of NZ$64.05 million comprises a NZ$17 million cash payment to fully settle historical tax disputes with the New Zealand Inland Revenue Department ("IRD"), the utilisation and derecognition of historically recognised tax losses and other deferred tax balances related to the demerged business.

The Company has previously disclosed that the IRD was auditing or reviewing several taxation matters, including the dispute with the IRD regarding the Mandatory Convertible Note ("MCN") transaction. These matters were disclosed in previous financial statements and in an Explanatory Memorandum dated 11 May 2016 relating to the Demerger of the Company from APN.

On 23 June 2016, the Company and APN reached a binding heads of agreement with the IRD to settle the MCN transaction, the Branch financing transaction, non-resident withholding tax and thin capitalisation issues, and a further matter that was under review by the IRD. This settlement closes off all current areas of audit and dispute between the IRD and the Company. The settlement was for the total sum of NZ$33.9 million, with the cost of settlement shared between the Company and a subsidiary of APN on a near equal basis. Payment occurred on 26 August 2016. The settlement utilised NZ$56 million of tax losses.

Accounting policies

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provision where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill: deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

6.1 NZME DEMERGER FROM APN

On 11 May 2016, APN News & Media Limited ("APN"), then the ultimate parent entity of the Company announced a demerger of 100% of the Group to APN shareholders ("Demerger"), subject to a majority shareholder vote held on 16 June 2016. The Demerger was approved by the requisite majority of APN Shareholders and all other conditions precedent to the Demerger were satisfied or waived. The Demerger was completed on 29 June 2016.

On 27 June 2016 the Company was listed as a separate standalone entity on the NZX Main Board and ASX under the ticker code NZM on a deferred settlement basis (on a post consolidation basis). Trading of NZME shares commenced on a normal settlement basis on 1 July 2016.

Prior to the Demerger, APN initiated an internal restructure, being an internal restructure to separate and align the relevant businesses, assets and liabilities of APN with the appropriate entity prior to the Demerger (the "Internal Restructure").

The Demerger Implementation Deed, entered into by the Company and APN, provided for the Internal Restructure to be completed so that:

- The Group was created as an identifiable and separate corporate group under NZME Limited, capable of operating on a standalone basis; and
- All subsidiaries, assets and liabilities which did not relate directly to the Group business were held by APN following the Demerger.

Broadly, the Internal Restructure entailed the following:

- Certain subsidiaries, business, assets and liabilities relating to the Group business were aligned or transferred to entities that would be subsidiaries of the Company following the Demerger;
- Certain subsidiaries, business, assets and liabilities relating to the APN business which are held by subsidiaries of the Company were aligned or transferred to entities that would be subsidiaries of APN following the Demerger;
- Various intercompany loans, receivables and payables were repaid (other than ordinary trading receivables and payables which will be settled on normal commercial terms) so that upon the Demerger there were no loans across the APN and NZME businesses outstanding; and
- Various distributions were made between the subsidiaries of NZME and subsidiaries of APN.

On 24 June 2016, the Company declared and settled a dividend of $191,257,897 to APN International Pty Limited.

In order to give effect to the share and asset transfers forming part of the Internal Restructure, a series of share and asset sale agreements were entered into between APN and the Group. These sale agreements were on standard terms for intra-group share and asset sales, including limited title and capacity warranties given by both parties.

Acquisition of businesses
The acquisition of the entities have been recognised as common control transactions. The Group applies the predecessor values method, without any step up to fair value. All the assets and liabilities acquired were recognised at book values per the consolidated financial statements of the highest entity that had common control (i.e. APN) immediately prior to the Internal Restructure. The difference between the consideration established under the Internal Restructure and the adjusted carrying value of the assets and liabilities (at the date of the transaction) acquired totalling $51.9 million has been recognised in equity. No goodwill was created or recognised. The Group financial statements incorporate the acquired entity's results only from the date of acquisition. The corresponding amounts of the previous period are not restated.

Disposal of businesses
Upon the disposal of entities, where there was a loss of control, the Group has derecognised the assets and liabilities of the subsidiary, any related non-controlling interests and other components of equity. Any resulting gain or loss is recognised in the income statement. The Group's interest in Australian Radio Network ("ARN"), The Level 3 Partnership and The Level 4 Partnership were acquired by a subsidiary company of APN on normal commercial terms.

Asset acquisition
On 24 June 2016, the Group acquired certain NZ publishing masthead brands (refer to note 3.1) on normal commercial terms from a subsidiary company of APN.

6.1.1 Business disposed – discontinued operations

The results of ARN, The Level 3 Partnership and The Level 4 Partnership prior to disposal are reported as discontinued operations. Information relating to the discontinued operations for the period to the date of disposal is set out below.

As a result of the Internal Restructure, the disposals resulted in a recognition of a gain of $192,519,000 (tax impact: $nil).

For the entities disposed where there was a loss of control, the Group has derecognised the assets and liabilities of the subsidiary, any related non-controlling interests and other components of equity. Any resulting gain or loss is recognised in the income statement. Balances in the foreign currency translation reserve in respect of NZME's net investment in entities disposed have been recycled through the income statement.

The Group's 98% interest in The Level 3 Partnership was sold to a subsidiary of APN on normal commercial terms. This APN subsidiary had previously held a 1% interest in The Level 3 Partnership. The consideration received was $119,937,000. This transaction, alongside the sale of the Group's interest in ARN, resulted in a decrease in non-controlling interests in ARN. The carrying amount of the non-controlling interests in ARN on the date of the transaction was $180,520,000. The Group recognised a decrease in non-controlling interests of $180,520,000.

The combined results of discontinued operations included in profit or loss and cash flows for the period are set out below.

The comparative income statement has been re-presented to include those operations classified as discontinued in the current year.

	2016 $'000	2015 $'000
Revenue and other income	**127,542**	252,019
Expenses from operations before finance costs, depreciation & amortisation	**(83,606)**	(154,518)
Finance costs	**(599)**	(422)
Depreciation and amortisation	**(2,348)**	(4,512)
Change in fair value of financial instruments[A]	**(31,481)**	(12,623)
Profit / (loss) before income tax	**9,508**	79,944
Income tax expense	**(11,606)**	(26,779)
Profit / (loss) after income tax of discontinued operations	**(2,098)**	53,165
Profit / (loss) on sale of businesses after income tax	**192,519**	-
Reclassification of foreign currency translation reserves to the income statement	**(65,326)**	-
Profit / (loss) after income tax from discontinued operations	**125,095**	53,165
Profit / (loss) from discontinued operations is attributable to:		
Owners of the parent entity	**115,502**	37,649
Non-controlling interests	**9,593**	15,516
Profit / (loss) from discontinued operations	**125,095**	53,165
Net cash inflows from operating activities	**37,322**	84,128
Net cash outflows from investing activities	**(1,120)**	(88,763)
Net cash inflows/(outflows) from financing activities	**(37,277)**	3,978
Net decrease in cash generated by the businesses	**(1,075)**	(657)

Footnote on the next page.

(A) Change in fair value of financial instruments relates to the Level 4 Partnership's investments in a debenture issued by Nathco Holdings Pty Ltd, a member of the APN group. NZME's interest in the Level 4 Partnership was subsequently sold to APN, prior to Demerger.

Carrying value of net assets derecognised

	2016 $'000
Cash and cash equivalents	2,564
Trade and other receivables	230,754
Intangible assets	401,258
Property, plant and equipment	16,775
Other financial assets	91,294
Other assets	324
Trade and other payables	(34,365)
Current tax payable	(82)
Provisions	(3,996)
Deferred tax liabilities	(33,778)
Net assets derecognised	670,748
Less: net assets attributable to non-controlling interests	(180,520)
Net assets derecognised attributable to equity holders of NZME Limited	490,228
Consideration received	682,747
Profit / (loss) on sale	192,519
Income tax expense on gain	-
Profit / (loss) on sale after income tax	192,519

Accounting policies

Discontinued operations and assets held for sale

Non-current assets (or disposal Groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. They are measured at the lower of their carrying amount, and their fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately on the face of the income statement.

NOTES TO THE **CONSOLIDATED FINANCIAL STATEMENTS**

6.1.2 Businesses and net assets acquired

As part of the Internal Restructure undertaken by the Group pursuant to the Merger Implementation Deed with APN, several entities, assets and liabilities have been acquired by the Group.

The acquisition of the non-controlling interest in NZME Radio Limited ("NZME Radio") has been treated as a common control transaction. Any gain or loss on acquisition of an ownership interest held by a non-controlling party is recognised directly in equity. The difference between the consideration transferred and the carrying value of APN's non-controlling interest in NZME Radio at 24 June 2016 resulted in an adjustment of $45,776,000 being recognised directly within equity.

The acquisition of NZME Educational Media Limited has been recognised as common control transaction. The difference between the consideration established under the internal restructure and the carrying value of the assets and liabilities (at the date of the transaction) acquired totalling $6,110,000 has been recognised in equity.

The Group also acquired certain NZ publishing masthead brands (refer to note 3.1) on normal commercial terms from a subsidiary company of APN.

The total carrying value of the assets and liabilities that were acquired by the Group as part of the Internal Restructure that occurred prior to the Demerger were as follows:

	2016 $'000
Net assets acquired	
Trade and other receivables	579
Masthead brands	146,976
Other	17
Total assets	147,572
Trade and other payables	216
Current tax payable	425
Total liabilities	641
Net assets attributable to equity holders of NZME Limited	146,931

6.1.3 Net cash flow

The net cash flow from the sale of businesses, acquisitions of businesses and net assets and the settlement of dividends was NZ$96 million and has been presented within investing activities in the cash flow statement. This is made up as follows:

	2016 $'000
NET CASH FLOW	
Cash consideration received	98,500
Cash and cash equivalents disposed of	(2,564)
Net cash inflow of internal restructure	95,936

Accounting policies

Common control transactions

Business combinations in which all of the combining entities or businesses ultimately controlled by the same party or parties both before and after the combination are recognised as common control transactions.

The Group applies the predecessor values method, without any step up to fair value. The net assets acquired, including goodwill, are incorporated in the Group financial statements at the book values as per the consolidated financial statements of the highest entity that has common control (i.e. APN). The difference between any consideration given and the aggregate book value of net assets (at the date of the transaction) of the acquired entity is recorded as an adjustment to equity. No additional goodwill is created.

The Group financial statements incorporate the acquired entity's results only from the date of acquisition. The corresponding amounts of the previous period are not restated.

6.2 BUSINESS COMBINATION

During the year ended 31 December 2015, the Group gained control over Radio 96FM Perth Pty Ltd for a consideration of AU$78,000,000 less working capital adjustments. The acquisition accounting was disclosed in the Company's financial statements for the year ended 31 December 2015. Radio 96FM Perth Pty Ltd was subsequently disposed of as part of the Demerger (refer to note 6.1).

6.3 CONTROLLED ENTITIES

Significant judgement

Prior to the Demerger as described in note 5.1, the Group held 50% of the issued capital of ARN, but exercised effective control over the entity based on the Board and management representation and the 76.8% economic interest held by the Group.

The consolidated financial statements incorporate the assets, liabilities and results of the subsidiaries listed below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the Group, and the proportion of ownership interest held equals the voting rights held by the Group. All entities are incorporated in, and operate in, New Zealand unless otherwise stated. Changes in control over entities occurred on Demerger (see note 6.1).

NAME OF ENTITY	2016	2015
Adhub Limited	100%	100%
APN Braiside Pty Limited	-	100%
APN Milperra Pty Limited	-	100%
Australian Radio Network Pty Ltd	-	50%
Cardcorp (Manufacturing) Pty Limited	-	100%
ESKY Limited	100%	100%
Grabone Limited	100%	100%
Idea HQ Limited	100%	100%
Mt Maunganui Publishing Co Limited	100%	100%
NZME 2014 Limited	100%	100%
NZME Australia Pty Limited (Previously GrabOne Australia Pty Limited)[A]	100%	100%
NZME Digital Limited	100%	100%
NZME Educational Media Limited	100%	-
NZME Finance Limited	100%	100%
NZME Holdings Limited (Previously: APN Holdings NZ Limited)	100%	100%
NZME Investments Limited (Previously: APN NZ Investments Limited)	100%	100%
NZME Online Limited	100%	100%
NZME Print Limited (Previously: APN Print NZ Limited)	100%	100%
NZME Publishing Limited	100%	100%
NZME Radio Investments Limited	100%	50%
NZME Radio Limited[B]	100%	50%
NZME Specialist Limited (Previously: APN Specialist Publications NZ Limited)	100%	100%
NZME Trading Limited	100%	100%
Radio 96FM Perth Pty Limited[A]	-	50%
Regional Publishers Limited	100%	100%
Sell Me Free Limited	100%	100%
Sella Limited	100%	100%
Stanley Newcomb & Co Limited	100%	100%
The Hive Limited	100%	100%
The Level 3 Partnership	-	98%
The Level 4 Partnership	-	99%
The New Zealand Radio Network Limited	100%	50%
The Radio Bureau Limited	100%	50%
Trade Debts Collecting Co Limited	100%	100%
W & H Interactive Limited	100%	100%
Wilson & Horton Australia Pty Limited	-	100%

(A) Incorporated in, and operate in, Australia. (B) One "Kiwi Share" held by the Minister of Finance. The rights and obligations are set out in the NZME Radio Limited constitution.

Accounting policies

The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. The acquisition method of accounting is used to account for business combinations by the Group (refer note 6.2), other than for common control transactions (refer note 6.1).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group. Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, statement of comprehensives income, statement of changes in equity and balance sheet respectively.

6.4 INTERESTS IN OTHER ENTITIES

6.4.1 Material subsidiaries with non-controlling interests

Set out below are the Group's principal subsidiaries with material non-controlling interests. Unless otherwise stated, the subsidiaries as listed below have share capital consisting solely of ordinary shares, which are held directly by the Group, and the proportion of ownership interests held equals to the voting rights held by the Group.

On 24 June 2016, as part of the Internal Restructure, the Group's interest in ARN (including Brisbane FM Radio Pty Limited, Radio 96FM Perth Pty Limited and Emotive Pty Limited) was sold to APN on normal commercial terms. NZME Radio, which was previously owned by the ARN, was acquired by an entity within the NZME Group on 24 June 2016. Refer to Note 6.1 for further details.

			Ownership interest held by the Group		Ownership interest held by non-controlling interest		
NAME OF ENTITY	PLACE OF BUSINESS	COUNTRY OF INCORPORATION	**2016**	2015	**2016**	2015	PRINCIPLE ACTIVITIES
Australian Radio Network Pty Limited[A]	Australia and New Zealand	Australia	-	50%	-	50%	Commercial radio

(A) The ARN owned 100% of NZME Radio as at 31 December 2015. As at 31 December 2016, the Group owns 100% of NZME Radio.

Refer to note 6.1 for further transactional information on the disposed entities.

Accounting policies

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, statement of comprehensives income, statement of changes in equity and balance sheet respectively. The effects of all transactions with non-controlling interests are recorded in equity if there is no change in control. Where there is a loss of control, any remaining interest in the entity is remeasured to fair value and a gain or loss is recognised in the consolidated income statement. Any losses are allocated to the non-controlling interest in subsidiaries even if the accumulated losses should exceed the non-controlling interest in the individual subsidiary's equity.

6.4.2 Associates, joint ventures and joint operations

The Group has the following associates, joint ventures and joint operations:

	OWNERSHIP INTEREST 2016	OWNERSHIP INTEREST 2015
Chinese New Zealand Herald Limited[A]	**50%**	-
Eveve New Zealand Limited[A]	**40%**	-
KPEX Limited[A]	**25%**	25%
New Zealand Press Association Limited[A]	**38.82%**	38.82%
Restaurant Hub Limited[A]	**40%**	-
The Beacon Printing & Publishing Company Limited[A]	**21%**	21%
The Gisborne Herald Company Limited (held through Essex Castle Limited as a trust company for NZME Publishing Limited)[A]	**49%**	49%
The Radio Bureau[B]	**50%**	50%
The Wairoa Star Limited[A]	**40.41%**	40.41%
Ratebroker Limited[A]	**20%**	-
The Newspaper Publishers Association of New Zealand Incorporated[C]	**-**	-
Online Media Standards Authority Incorporated[C]	**-**	-
New Zealand Press Council[C]	**-**	-
Radio Broadcasters Association Incorporated[C]	**-**	-

(A) These entities are classified as joint ventures or associates. Because the effects of equity accounting are immaterial, these investments are carried at cost (refer note 6.4.3). (B) The Radio Bureau is classified as a joint operation and the Group has included its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses in these consolidated financial statements.(C) These are bodies with which entities in the Group have memberships, but no ownership interest.

Accounting policies

Associates

Associates are all entities over which the Group has significant influence but not control or joint control. Material investments in associates are accounted for in the consolidated financial statements using the equity method of accounting, after initially being recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

Joint arrangements

Under NZ IFRS 11 *Joint Arrangements* investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement.

For material joint operations, the Group recognises its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. These have been incorporated in the financial statements under the appropriate headings. Interests in material joint ventures are accounted for using the equity method (see below) after initially being recognised at cost in the consolidated balance sheet.

Equity method of accounting

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the group and its associates and joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group

The carrying amount of equity-accounted investments is tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where the effects of equity accounting is immaterial, investments are carried at cost.

6.4.3 Other financial assets

	2016 $'000	2015 $'000
Shares in other corporations	**5,988**	34,291
Financial instrument held by Level 4 Partnership	**-**	94,095
Total other financial assets	**5,988**	128,386

For the year ended 31 December 2016, shares in other corporations consist of investments in entities that are not consolidated or equity accounted (see also note 6.4.2). These investments are carried at cost.
For the year ended 31 December 2015, shares in other corporations consisted of:

- Investments in entities that are not consolidated or equity accounted of $2,590,000 (see also note 6.4.2), and
- Interests in other companies that are not consolidated or equity accounted, but was carried at fair value of $31,701,000. This was disposed as part of the sale of the Group's interest in ARN on 24 June 2016. Refer to Note 6.1 for further details on the Demerger.

7.0 OTHER NOTES

7.1 RELATED PARTIES

7.1.1 Key management compensation

	2016 $'000	2015 $'000
TOTAL REMUNERATION FOR DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL:		
Short term benefits	**5,510**	3,838
Post-employment benefits	**-**	125
Termination benefits	**52**	482
Share-based payments	**144**	315
	5,706	4,760

The table above includes remuneration of the Board of Directors and the Executive Team, including amounts paid to members of the Executive Team who left during the year. Where a staff member was acting in a position on the Executive Team, that portion of their remuneration has been included in the table above. The table excludes any dividends that may have been received due to shares of the Company being held by the Directors or other key management personnel.

7.1.2 Transactions with other related parties

The Company was, until the 29 June 2016, a wholly owned subsidiary of the APN News & Media Limited ("APN") group. With the exception of transactions relating to tax losses, transactions with Beacon Print Limited and transactions relating to new associates and joint ventures which includes transactions for the full year, the transactions with related parties as described below include transactions up to 29 June 2016, the date on which these parties ceased being related parties to the Group.

Since 31 December 2015, amounts due from related parties of $304,931,000 and amounts due to related parties of $322,304,000 have been settled as reported in the interim financial statements for the six months ended 30 June 2016, with a significant portion of the settlement occurring as part of the Internal Restructure (refer to Note 6.1 for further details).

During the period, the Group charged interest of $358,780 (2015: $1,032,232) to Biffin Pty Ltd a member of the APN Group. Biffin Pty Ltd charged management fees to NZME Holdings Limited (previously: APN Holdings NZ Limited) of $611,056 (2015: $2,050,000). A Group company, NZME Holdings Limited charged shared services fees totalling $1,456,000 (2015: $2,258,000) to related parties. The Group purchased print services worth $4,134,000 (2015: $4,949,000) from Beacon Print Limited, a company in which the Group holds an interest in. Biffin Pty Ltd repaid loans of $5,012,246 (2015: $104,990,779) to Group companies and borrowed $nil (2015: $3,452,707) from group companies.

Wilson & Horton Finance Pty Ltd, New Zealand Branch (the "Branch"), charged royalty fees of $12,216,000 (2015: $22,853,000), advanced $13,200,000 (2015: $17,762,603), repaid loans of $539,000 (2015: $297,000) and charged interest of $2,765,000 (2015: $6,186,000) to the Group. The Group charged the Branch, office rental and service fees of $78,000 (2015: $168,000).

New Zealand entities within the Group received tax losses from New Zealand entities outside the Group of $nil (2015: $18,437,826) for consideration of $nil (2015: $5,162,591). New Zealand entities in the Group offset tax losses to New Zealand entities outside the Group of $35,110,134 (2015: $650,905) for consideration of $9,830,837 (2015: $182,253).

In November 2015, the Company, Fairfax Media, TVNZ and MediaWorks launched a new local advertising exchange service, KPEX Limited, offering media agencies and clients a programmatic option for purchasing online advertising. The group received advertising revenue of $2,359,475 (2015: $84,788) and paid commission of $358,782 (2015: $12,467).

During 2016, the Group acquired interests in certain joint ventures and associates. The Group has entered into commitments to provide future services to joint ventures and associates (such as house advertising, occupancy space at NZME offices, business as usual finance and human resources support). During the year such services were provided to Eveve, valued at $10,706 (2015:$nil), and Restaurant Hub, valued at $41,415 (2015:$nil). The outstanding balances for future services are included in the table on the next page.

	2016 RECEIVABLES $'000	2015 RECEIVABLES $'000	**2016 PAYABLES $'000**	2015 PAYABLES $'000
Balances with related party				
Biffin Pty Limited	-	25,807	-	37,785
Media Tek Pty Limited	-	53,434	-	1,068
APN Newspapers Pty Limited	-	225,184	-	55,206
NZME Educational Media Limited	-	216	-	1,428
Wilson & Horton Finance Pty Limited – New Zealand Branch	-	-	-	153,224
APN News & Media Limited	-	-	-	67,898
KPEX Limited	**750**	-	**113**	-
Chinese New Zealand Herald Limited	-	-	**43**	-
Eveve New Zealand Limited	-	-	**194**	-
Restaurant Hub Limited	-	-	**604**	-
Ratebroker Limited	-	-	**1,700**	-
Other related party balances	-	290	-	5,695
Total related party receivables and payables	**750**	304,931	**2,654**	322,304

7.2 CONTINGENT LIABILITIES

7.2.1 Claims

Claims for damages are made against the Group from time to time in the ordinary course of business. Sky Network Television Limited initiated proceedings against NZME Publishing Limited and other NZ media companies alleging breaches of copyright in relation to the use of rugby video footage in news stories. The Directors cannot presently estimate a potential liability, if any. The Group continues to defend this claim.

7.3 SUBSEQUENT EVENTS

Refer to note 1.4.2 for a description of events relating to the proposed merger with Fairfax New Zealand.

The Directors are not aware of any other material events subsequent to the balance sheet date.

7.4 NEW STANDARDS AND INTERPRETATIONS ADOPTED IN THE CURRENT YEAR

The Group applied the following new or revised pronouncements for the first time during the year. None of these pronouncements had a material impact on the disclosures or amounts recognised in the Group's consolidated financial statements.

Accounting for acquisitions of interests in joint operations (amendments to NZ IFRS 11) (effective 1 January 2016)
The amendment to NZ IFRS 11 clarifies the accounting for the acquisition of an interest in a joint operation where the activities of the operation constitute a business.

XRB A1 Application of the accounting standards framework (effective 1 January 2016)
XRB A1 Application of the Accounting Standards Framework supersedes all previous versions of XRB A1. This final version of XRB A1 does not change the requirements of the accounting standards framework, however the XRB took the opportunity to remove duplications and clarify the meaning of public accountability.

Amendments to for-profit accounting standards as a consequence of XRB A1 and other amendments (effective 1 January 2016)
Amendments to clarify minor points, align terminology with that used in XRB A1, amend RDR concessions and update for editorial changes in various accounting standards, including NZ IFRS 1, NZ IFRS 4, NZ IAS 1, NZ IAS 8, NZ IAS 33, NZ IAS 34, FRS-43 and FRS-44.

All other new standards, interpretations and amendments are either not applicable to the Group or not material.

7.5 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

NZ IFRS 15 *Revenue from contracts with customers* replaces NZ IAS 18 and NZ IAS 11 and is effective for periods commencing 1 January 2018. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The notion of control therefore replaces the existing notion of risks and rewards.

NZ IFRS 16 *Leases* replaces NZ IAS 17 and is effective for periods commencing 1 January 2019. It requires a lessee to recognise a lease liability reflecting future lease payments and a "right-of-use asset" for virtually all lease contracts. Included is an optional exemption for certain short-term leases and leases of low-value assets for lessees.

The impact that these standards will have on the Group's financial statements has not yet been determined.

All other standards, interpretations and amendments issued but not yet effective are either not applicable to the Group or not material.

Independent auditor's report

To the shareholders of NZME Limited

The consolidated financial statements comprise:

- the balance sheet as at 31 December 2016
- the income statement for the year then ended
- the statement of comprehensive income for the year then ended
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements of NZME Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 31 December 2016, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs NZ) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)*, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other services for the Group in the areas of taxation compliance and advisory services, tax pooling services, advisory services in connection with the potential merger with Fairfax, and other assurance services. The provision of these other services has not impaired our independence as auditor of the Group.

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Our audit approach

Overview

An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement.

Overall Group materiality: $1,865,000, which represents 5% of profit before tax from continuing operations excluding one-off items of the Group.

We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. We have adjusted this benchmark for one-off transactions to reduce volatility and to reflect the underlying performance of the Group.

Our key audit matters are:

- Accounting for the demerger of NZME from APN News & Media Limited
- Impairment testing of intangible assets.

Materiality

The scope of our audit was influenced by our application of materiality.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

Audit scope

We designed our audit by assessing the risks of material misstatement in the consolidated financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

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Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Accounting for the demerger of NZME from APN News & Media Limited As set out in note 6.1, on 29 June 2016, the group completed the demerger of 100% of NZME Limited Group (NZME) from APN News and Media Limited (APN). This was a significant event for the Group and, prior to the demerger, required a complex internal restructure to separate and align the relevant businesses, assets and liabilities within the respective entities. The internal restructure involved: • The acquisition of businesses, as detailed in note 6.1, by NZME from APN. These were accounted for as common control transactions using the predecessor values method. The difference between the consideration paid, which management determined was the best estimate of the fair value of the businesses, and the predecessor values was recorded as a reduction to equity of $51.9m. • The sale of businesses, as detailed in note 6.1, by NZME to APN resulted in the recognition of a gain on disposal in the Income Statement of $127.2m. This was the difference between the carrying value of the net assets disposed and the consideration of $682.7m which management determined was the best estimate of the fair value of the businesses. • The acquisition of masthead brands as detailed in note 6.1 by NZME from APN for consideration of $147.0m which was determined based on management's best estimate of the fair value of the masthead brands. These were accounted for as asset acquisitions and the acquired assets recorded at cost.	Our audit procedures included obtaining an understanding of each phase of the restructure and demerger, including understanding the accounting treatment adopted by management. We performed audit procedures over the demerger and allocation of assets and liabilities to ensure these followed the legal execution of all steps in the transaction. We ensured that the accounting for each step of the transaction met the requirements of NZ accounting standards. Specifically, we performed the following procedures: • Obtained copies of all relevant contracts, agreements, and valuations. • Assessed whether the recognition of business sales as common control transactions was supported by contracts and was consistent with the requirements of NZ accounting standards. • Recalculated the amount recorded in equity in relation to the businesses acquired. • Agreed the consideration amounts to supporting contracts, and the predecessor values to the underlying accounting records of the businesses acquired. • Recalculated the gain on disposal of businesses. • Agreed the net assets derecognised to the carrying value of the assets and liabilities disposed as at the date of disposal, and the consideration amounts to supporting contracts. • Agreed the terms and conditions of the acquisition of the masthead brands, including the acquisition price to the legal agreements entered into. • Assessed the related tax implications including the treatment of the gain on disposal for tax purposes. • Agreed the actual cash flows associated with the transaction to supporting contracts. Examined the disclosures in note 6.1 and 5 of the financial statements to ensure that it was accurate and compliant with the requirements of NZ accounting standards.

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Key audit matter	How our audit addressed the key audit matter
Impairment testing of intangible assets As outlined in note 3.1, total non-amortising intangible assets, including goodwill ($70.8m), masthead brands ($147.0m), and brands ($59.1m) have a carrying value of $276.8m at 31 December 2016 and represent 57% of total assets. Management utilised a value in use methodology to determine the value of the business using discounted cash flows and performed an impairment assessment of the goodwill and non-amortising intangible assets. This assessment is complex in nature and includes key estimates and assumptions made by management, particularly in the following areas: • The assessment of cash generating units (CGUs) – management have determined that the NZME business constitutes one CGU. • Expected future trading results – management have based these on budgets and forecasts which have been approved by the Board of Directors. • The weighted average cost of capital used as the discount rate in the model – management have applied a rate of 9.5%. • The expected long term growth rate – management have applied a rate of 0%. • Considering sensitivity by determining and forecasting other reasonably possible scenarios and assessing the impact on the valuation of these scenarios. In their assessment management determined that the model was most sensitive to the ratio of growth in digital revenue as compared to the decline in print revenue. The impairment assessment completed by management for 2016 calculated the value of the business as higher than the carrying value of applicable net assets and no impairment was identified.	We considered management's identification of cash generating units by gaining an understanding of the business, how it is managed, and how the results are reported to management and the directors. We tested the calculation of the valuation model including the inputs and mathematical accuracy of the model and comparison to the relevant net assets value of the Group. We also assessed key estimates and assumptions made by management. Our audit procedures included the following: • We gained an understanding of the business process applied by management in determining whether there are any indicators of impairment in the value of goodwill and non-amortising intangible assets. • We agreed the future cash flows included in management's model to the budgets and forecasts approved by the Board of Directors. • We considered the reasonableness of key assumptions in the cash flow forecasts, in particular revenue growth and the profile of print and digital revenues, forecast margins and terminal growth rates. We considered these with reference to historic performance of the Group, key initiatives being undertaken and comparison to results of comparable companies and available broker reports. • We engaged an independent expert to recalculate the weighted average cost of capital used as the discount rate in the model and determined that the rate used by management was within a reasonable range. • We considered management's sensitivity analysis and in particular the assumptions associated with digital and print revenues. For each of the scenarios we tested the mathematical accuracy of the model, the changes made, and the impact of those changes on the valuation. We reviewed the disclosure in the financial statements to ensure that this is compliant with the requirements of NZ accounting standards.

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Information other than the financial statements and auditor's report

The Directors are responsible for the annual report. Our opinion on the consolidated financial statements does not cover the other information included in the annual report and we do not, and will not, express any form of assurance conclusion on other information. At the time of our audit, there was no other information available to us.

In connection with our audit of the consolidated financial statements, if other information is included in the annual report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of our auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact.

Responsibilities of the Directors for the consolidated financial statements

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

https://xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page1.aspx

This description forms part of our auditor's report.

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Who we report to

This report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Julian Prior.

For and on behalf of:

PricewaterhouseCoopers.

Chartered Accountants
23 February 2017

Auckland

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