NZME.

NEW ZEALAND MEDIA AND ENTERTAINMENT

Annual Report NZME Limited

For the year ended 31 December 2018

There is no doubt that parts of our industry continue to face significant challenges, but the 2018 results suggest that we are on the right track and we look forward to embracing the exciting opportunities NZME has to grow.

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This annual report is dated 29 March 2019 and is signed on behalf of the Board of Directors by:

Peter Cullinane
Director

Carol Campbell
Director

NZME 2018 RESULTS SUMMARY

Results impacted by

Pro-active investment in Digital Classifieds

Agency market headwinds

Statutory NPAT

$11.6m

2017 $20.9m ▼ 44%

Trading Revenue[1]

$378.4m

2017 $387.7m ▼ 2%

Trading EBITDA[1]

$54.7m

2017 $66.2m ▼ 17%

Trading NPAT[1]

$18.9m

2017 $26.7m ▼ 29%

Trading Earnings Per Share[1]

9.6cps

2017 13.6cps ▼ 29%

Final Dividend

nil

2018 total dividends 2 cents per share

(1) Trading measures used throughout this Annual Report are non-GAAP measures that are explained and reconciled on pages 34 and 35 of the NZME Full Year 2018 Results Presentation available on the Company's website.

The New Zealand Herald remains the most-read and highest-selling newspaper in the country.

CHAIR'S REPORT

NZME's financial results for 2018 reflect progress on our strategy of growing new revenue streams and retaining revenue from traditional advertising sources. While New Zealand advertising demand was softer in 2018 due to economic conditions, the rate of decline in NZME's revenue and earnings slowed again, suggesting we are making constructive headway on our plans.

We have strengthened the Company's prospects by investing in a number of promising new revenue opportunities to grow long term shareholder value. By improving declines in print revenue and planting the seeds of growth in other areas, NZME made solid progress on its strategy.

Following the completion of the Board's capital review in November 2018, NZME refinanced its debt and announced a revised Capital Management Policy, which supports our long-term strategic and financial objectives and operational priorities to maximise shareholder value. The near-term objective of the policy is to reduce gearing while maintaining investment in growth opportunities and paying dividends when trading and investment conditions permit. Consistent with the policy, the Board has elected not to declare a final dividend with respect to the 2018 financial year. Total dividends for 2018 were 2.0 cents per share, fully imputed, and paid in October 2018. While the near-term focus of the policy is to reduce gearing and fund growth, we recognise that dividends are an important part of total shareholder returns. As such, it is the Board's intention that NZME remain a dividend paying company.

NZME's audience of 3.3 million New Zealanders[1] represents 80% of the New Zealand population, and remains a key driver of the value of the Company. The New Zealand Herald daily brand audience exceeded 1 million[2] and engagement on nzherald.co.nz, as measured by time spent per visit, improved in 2018[3].

NZME's advertising revenue faced ongoing structural pressures in the print advertising market and weaker business and consumer confidence, which impacted New Zealand Agency advertising demand in Radio, Digital and Print. NZME's overall revenue decline was 2% in 2018, an improvement on the 4% decline experienced in 2017.

An improved final quarter, saw the rate of decline in Print advertising revenue also slow from previous years, supported by the Travel category, which benefitted from strong growth in advertising by the cruise ship industry.

NZME maintained its 39% share of radio advertising market revenue[4] and continued to focus on delivering the best offer to inform, entertain and attract listeners. This supported an improvement in Direct Radio revenue, notwithstanding the impact of weak Agency demand on overall Radio revenue.

Digital advertising revenue growth slowed in 2018, also impacted by Agency demand. The Digital market continues to evolve but retains highly attractive fundamentals and we expect it to remain a key long-term driver of growth[5], which is why it remains the focus of our growth investment.

Since launch in March 2018, NZME's real estate classifieds portal, OneRoof, has made significant progress, growing real estate listings and audience to deliver modest but growing revenue. Our employment and automotive portals, YUDU and DRIVEN, also continue to show potential.

We have made good progress towards launching digital subscriptions in the second quarter of 2019. Following the launch of digital subscriptions we will continue to deliver the majority of our day-to-day news and current affairs free of charge to our audience of 1.7 million[6], who will also have the opportunity to access premium content on subscription.

Industry consolidation has been a powerful trend within the media sector that is expected to continue. While NZME has determined to not appeal the Court of Appeal's decision in relation to the proposed merger with Stuff Limited, bringing that merger process to a conclusion, NZME will continue to pursue opportunities that support our strategic objectives and add value for shareholders.

In 2018, the Board was pleased to appoint Barbara Chapman and Sussan Turner as non-executive directors. Both directors are highly credentialed in consumer facing businesses, having held CEO positions at leading companies in the retail banking sector and media and education sectors respectively. This experience complements the strategy and finance skills of David Gibson, who was appointed in late 2017. The Board has a balanced mix of experience and skills appropriate to the NZME business and strategy.

The Board would like to thank the entire NZME team for their commitment and dedication throughout the year. Everyone at NZME works very hard to create a positive working environment and contribute to our success and the Board appreciates this effort.

There is no doubt that parts of our industry continue to face significant challenges, but the 2018 results suggest that we are on the right track and we look forward to embracing the exciting opportunities NZME has to grow.

We have some of New Zealand's most recognised and respected brands, an audience reach that is difficult to replicate, exceptional people throughout, and a unique integrated print, radio and digital offering. This places us in a strong position to grow shareholder value in the long term.

Peter Cullinane
Chair

(1) Nielsen CMI October Fused Q4 17 to Q3 18 October 2018 (population 10+ years). (2) Nielsen CMI Q1 18 – Q4 18 AP 15+, represents a combination of Print readership and Digital audience. (3) Nielsen Market Intelligence Domestic Traffic (1 Jan 18 – 31 Dec 18). (4) PwC Radio Advertising Benchmark Report, Q3 18. (5) PwC Outlook NZ Entertainment & Media 2018 – 2022. (6) Nielsen Online Ratings, December 2018.

CHIEF EXECUTIVE OFFICER'S REPORT

NZME's revenue performance was satisfactory, given the economic headwinds faced in 2018 which affected Agency advertising demand. Taking this backdrop into account, containing the decline in Print revenue was a standout. We are also excited about the performance of our real estate portal, OneRoof, including its early stage contribution to revenue.

The New Zealand Herald continues to enjoy strong readership with the weekly readership of NZME's daily print publications greater than the readership of the rest of the daily print market combined.[1] NZME's Radio audience and revenue share was stable. DRIVEN and YUDU continue to show potential and OneRoof enjoyed strong audience and listings growth.

Print revenue declined 4% benefitting from an extra publishing week in 2018 and a strong print travel sector, and Radio and Experiential revenue declined 3% due to challenges in the Agency advertising market. These declines were partially offset by 6% growth in Digital revenue. All channels were affected by a 4% decline in Agency advertising demand across the New Zealand market, reflecting weaker business confidence.

Given the changes in financial reporting standards, we provide "Trading" figures that offer a useful view of NZME's underlying performance.[2]

Statutory Net Profit After Tax ("NPAT") declined 44% on 2017 to $11.6 million and Statutory Earnings Per Share ("EPS") declined to 9.7 cents. Trading Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA")[2] declined 17% on 2017. Total Trading costs[2] increased 1% compared to 2017, with efficiency improvements offset by additional costs associated with an additional publishing week in 2018, an increase in contractual property operating expenses and a $6.1 million incremental investment in the Digital Classified businesses.

Our Trading NPAT[2] of $18.9 million and Trading EPS[2] of 9.6 cents were 29% lower than 2017.

Net debt was $98.3 million at 31 December 2018, down from $106.1 million at 30 June 2018 and up from $90.2 million at 31 December 2017. Net cash flow was impacted by reduced Trading EBITDA, changes in working capital and the timing of 2017 tax payments. Capital expenditure was $14.1 million in 2018, compared to $15.1 million in 2017. Net debt to 12-month rolling Trading EBITDA was 1.8 times, above our target range of 1.0 to 1.5 times. NZME retains significant headroom on its existing facilities with undrawn bank facilities of $51.7 million as at 31 December 2018.

2019 STRATEGIC PRIORITIES

NZME's long-term strategy is based on a three-horizon model, focusing on:

1. Optimising our core businesses;
2. Growing new revenue streams that leverage existing audience and customer relationships; and
3. Re-imagining revenue models that address unmet customer needs.

In 2019, we are narrowing our focus to horizon 2; revenue growth, in three main areas:

1. Leading the future of news and journalism in New Zealand;
2. Increasing radio capability and performance; and
3. Creating New Zealand's leading real estate platform.

Leading the future of news and journalism

In line with our strategy to leverage audience reach and brand strength to grow new revenue streams, NZME intends to launch paid content on its digital mastheads in the second quarter of 2019. The new platform will deliver access to the best content from four top global publishers and an unrivalled local team of premium journalists across business, politics, news, sport, lifestyle and entertainment. We intend to maintain our current audience of 1.7 million[3] with a freemium model that ensures the majority of our content remains free.

Increasing radio capability and performance

NZME is the second largest radio operator in New Zealand, with a weekly radio audience of 2.0 million[4]. In 2019, we will continue to enhance radio sales skills to support integrated selling. We will pursue digital audience and revenue growth through leveraging iHeart capability and will develop new shows to further build our radio audience.

Creating New Zealand's leading real estate platform

To support continued revenue growth, the focus for OneRoof in 2019 is on securing further market listings and property categories, ongoing development of user features and tools to enhance listings engagement, and market-leading New Zealand property commentary and insights.

CONCLUSION

In 2018, we made encouraging progress on our strategy to return total revenue to growth in the medium term. We slowed the print revenue decline, grew digital revenue, and further strengthened radio, to help us to achieve this goal.

The revised Capital Management Policy will ensure we maintain a strong balance sheet, enabling us to invest for growth, reduce debt, maintain financial stability, and maximise shareholder returns.

Our brilliant people, and their enthusiasm for what we do, make NZME a great company to work for and a great business. I thank them for their commitment, their innovation and their determination to succeed.

I also offer our thanks to the 3.3 million Kiwis that make up our audience, as well as our suppliers, business partners, customers and shareholders for their continued support.

We are making progress but have further work to do to realise the opportunity we have in 2019 to capitalise on our great brands, strong audience and exceptional people.

Michael Boggs
Chief Executive Officer

(1) Nielsen CMI Q1 18 - Q4 18 AP 15+. (2) Trading measures used throughout this Annual Report are non-GAAP measures that are explained and reconciled on pages 34 and 35 of the NZME Full Year 2018 Results Presentation available on the Company's website. (3) Nielsen Online Ratings, December 2018. (4) Gfk Radio Audience Measurement, Commercial stations, NZME and Partners, Cumulative Audience T4 2018.

CHANNEL RESULTS PRINT

The strength of NZME's print brands was recognised at the 2018 Voyager Media Awards with the Weekend Herald picking up Newspaper of the Year and best weekly newspaper. The New Zealand Herald remains the most-read and highest-selling newspaper in the country. Continued growth in readership and audience, and the ongoing market share gains, have supported the slowing rate of revenue decline. The New Zealand Herald's daily brand audience, which includes digital, remained above 1 million in 2018[1], reflecting the strength of the New Zealand Herald brand and NZME's success in growing audience reach. The New Zealand Herald remains a key asset and we are working hard to continue to grow audience to further enhance value.

Overall Print revenue, including advertising and circulation revenue, was $211.6 million in 2018, a decline of 4%. Print revenue was assisted in 2018 by an extra publishing week compared to the previous year but this remains a pleasing result given the industry headwinds.

Print advertising revenue of $114.2 million was 6% lower than 2017, impacted by structural deterioration in print advertising. There were, however, encouraging segments in Print advertising, such as the travel category, which experienced growth in the cruise ship segment. The 6% decline in Print advertising revenue in 2018 was a significant improvement on the declines seen in 2017 and 2016 respectively.

Circulation revenue was 2% lower in 2018. Circulation volume declined, however yields were maintained through cover price increases in July 2018. Circulation revenues were also assisted by an additional publishing week in 2018.

Other print revenue relating to print and distribution services provided to third parties continues to decline in line with declines in third party circulation.

CHANNEL RESULTS
RADIO

Trading Radio and Experiential revenue of $106.8 million in 2018 was 3% lower than 2017. Direct Radio advertising revenue showed positive trends in 2018. However, Agency Radio revenue declined 7% in 2018 due to weakness in Agency market demand as a result of weaker business confidence. NZME maintained its share of radio advertising market revenue[2] at 39%.

NZME continues to focus on having the best radio offer in the market. This was supported by new talent and programming enhancements in 2018, including a new drive show on ZM and a new breakfast show on Coast.

Radio audience share was stable in 2018[3] at 35%. NZME's leading brands maintained their strong presence, with NewstalkZB remaining the number one radio station in New Zealand. In digital radio, iHeart Radio grew its registered users by 18% over the year to more than 831,000[4] and total listening hours increased 16% year on year to 3.2 million[5].

NZME's aim is to deliver consistent radio revenue growth through building audience across brands and digital platforms, and enhancing radio sales skills and execution.

(1) Nielsen CMI Q1 18 – Q4 18 AP 15+, represents a combination of Print readership and Digital audience. **(2)** PwC Radio Advertising Benchmark Report, Q3 18. **(3)** GfK Radio Audience Measurement, Commercial Stations. NZME & Partners in Major Markets Trended to T4/2018. Station Share %, AP 18-54. **(4)** iHeartMedia, 2017- 2018; Adobe Analytics, 2018. **(5)** AdsWizz and StreamGuys, 2017-2018.

CHANNEL RESULTS DIGITAL

Digital and e-Commerce revenue grew 6% in 2018 to $60.0 million. The growth rate of the digital display and mobile advertising market slowed during 2018, impacted by a contraction in the overall Agency market. NZME's display and mobile revenue growth also slowed in 2018, although trends improved late in the year. The Digital market continues to evolve but retains highly attractive fundamentals and NZME expects the channel to remain a long-term driver of growth[6].

We were pleased to report a positive start for our real estate portal, OneRoof. Since launch in late March 2018, OneRoof has made significant progress on growing real estate listings and audience to support the generation of initial revenue of $0.7 million in 2018, $0.5 million of which was generated in the last quarter.

By the end of 2018, four out of the five major New Zealand real estate agency group's listings were on the site and residential 'for sale' listings had grown to cover 66% of the national market and 87% of the Greater Auckland market.

OneRoof has enjoyed strong audience growth since launch, supported by listings and the integrated content and advertising strategy. Audience growth was given a significant boost in early December 2018 with the release of the OneRoof Quarterly Property Report.

DRIVEN and YUDU continue to show potential. In 2018 DRIVEN launched a number of unique tools for buyers and sellers including a Car Value Calculator, Best Time to Sell and Cost to Run.

GrabOne revenue declined 4% in 2018. This represents a notable stabilisation in revenue compared to the 18% and 16% annual declines the previous two years, reflecting improvements in the business model.

(6) PwC Outlook NZ Entertainment & Media 2018 – 2022.

CORPORATE SOCIAL RESPONSIBILTY REPORT
NZME'S CSR JOURNEY

NZME is committed to Corporate Social Responsibility ("CSR") and ensuring our business is sustainable from a social, environmental and operating standpoint. To help us identify and define our roles and responsibilities as a corporate citizen we maintain an internal CSR committee to supervise our activities, as well as governance-level oversight through our CSR Board Committee.

During 2018 we commenced the process of defining a materiality matrix of sustainability issues that directly affect our business, to identify issues of greatest importance to both our internal and external stakeholders. In order to accurately inform the matrix NZME conducted interviews with a range of internal and external stakeholders including representatives from our staff, Board, shareholders, audience and customers, to collect their feedback on the material issues for NZME's sustainability.

A further 415 internal stakeholders, across all levels and areas of NZME, togther with the interviewees, participated in a survey to rank the sustainability issues, identified through the interview process, on their relevance to NZME. Issues related to our authenticity, integrity and role as an advocate and champion for social issues ranked very highly.

We intend to adopt the UN Sustainable Development Goals Framework with initial measurement to be undertaken in 2019 and reporting against the framework commencing in 2020.

Although we are at an early stage in the formalisation of our CSR strategy, NZME has long been aware of its responsibility as a corporate citizen to support its people, care for the environment and engage and advocate on behalf of the communities in which we operate. The remainder of this CSR Report covers the progress we are making with regard to People, the Environment and our Communities.

New Zealand's Prime Minister, Jacinda Ardern, guest editing The New Zealand Herald suffrage edition, September 2018

ENVIRONMENT

NZME takes its responsibility to the environment seriously. NZME's print operations were again awarded the Enviro-Mark Gold Certificate for excellence in environmental responsibility. The Enviro-Mark Gold Certificate can only be awarded to organisations that have developed, implemented and maintained an Environmental Management System and can verify this to Enviro-Mark Solutions. To achieve Enviro-Mark Gold certification an organisation has to set environmental objectives, targets and key performance indicators; develop, implement and test environmental emergency plans; identify and evaluate significant environmental issues; actively monitor ongoing compliance with New Zealand legislation; produce an environmental policy statement; understand the scope of their Environmental Management System and exhibit no non-compliance with New Zealand's health and safety and environmental legislation. NZME has been a participant in the Enviro-Mark Scheme for the past twelve years.

NZME predominantly prints on newsprint sourced from Norske Skog Tasman. Norske Skog Tasman makes newsprint in New Zealand largely from waste or by-product fibre from sustainable softwood resources utilising geothermal steam. Norske Skog Tasman is Chain of Custody Certified and all fibre used is either from certified or controlled sources (no native trees are used). The newsprint used by NZME is the most environmentally friendly paper Norske Skog Tasman makes. It uses less fibre, chemicals, power and transport than heavier weight papers which translates into a smaller carbon emissions footprint.

NZME's print operations were again awarded the Enviro-Mark Gold certificate for excellence in environmental responsibility.

In addition to our print operations, our building at NZME Central has a 5 Green Star – New Zealand Excellence – rating which is the second highest rating under the Green Star System that takes into consideration the building or fitout's rating in nine categories: Energy, Water, Materials, Indoor Environment Quality (IEQ), Transport, Land Use & Ecology, Management, Emissions, and Innovation.

COMMUNITIES

NZME recognises the responsibility that comes with acting as a voice of record for New Zealand. We use our wide reach across the country to champion charitable causes and facilitate conversations about the topics that matter to New Zealanders.

Her Story was the centrepiece of our coverage of the 125th anniversary of women's suffrage in New Zealand. The historic special edition of the New Zealand Herald, guest-edited by Prime Minister Jacinda Ardern, celebrated women through pieces such as Viva Magazine's 'Trailblazers' which highlighted 125 influential New Zealand women that have changed the world.

Speaking Secrets was a six-part podcast series documenting the rise of the #MeToo movement in New Zealand. The audio podcasts were supported by videos and written stories in The New Zealand Herald which put victims at the centre of the discussion. This engaged our communities through growing awareness of the scale of sexual abuse in New Zealand.

The New Zealand Herald also partnered with many organisations during the year to raise awareness and support for causes that impact our local and international community. These included;

The **Not For Sale campaign** which put a spotlight on child exploitation in Asia where millions of young girls face the prospect of child marriage, labour and trafficking. Partnering with World Vision, the campaign raised almost $200,000 through reader donations to help their child protection work globally.

The **Warm Hearts campaign** where the New Zealand Herald joined forces with the charity Variety with readers giving donations of warm clothes and bedding to give a helping hand to Kiwi families facing hardship over winter.

The **For The Gift of Sight campaign** which highlighted the growing rate of diabetes-related eye disease in Vanuatu and the Pacific. Partnering with the Fred Hollows Foundation, this campaign raised more than $150,000 for eye-health equipment.

NZME is proud to support communities nationwide by telling their stories, as well as supporting their campaigns with media space. Charities such as Cure Kids which works on preventative, lifesaving research for our tamariki, Lifeline which helps when people feel there is no other way, or Kiwis for Kiwi who are working to halt the decline of our national bird, are further examples of charities NZME supported in 2018.

PEOPLE

We focused our efforts into developing a new, more robust Diversity Strategy during 2018.

DIVERSITY

Diversity at NZME brings different talents and people together, all of them working towards a common goal using their unique skill sets. But before diversity comes inclusion.

With this in mind, and consistent with our Diversity Policy (available on the Company website), we focused our efforts on developing a new, more robust diversity strategy during 2018. Our diversity committee continues to build on the work started in 2017 in striving to ensure that NZME is a collaborative, inspiring and safe place to work.

There have been some fantastic moments of celebration, awareness and learning over the past year, from getting behind the likes of Pink Shirt Day and Sign Language Week to highlighting increasingly important issues around mental health. An incredible celebration was put on for Diwali that included traditional food, music, henna tattooing and dancers. We also celebrated Chinese New Year and Maori Language Week (Te Wiki o te Reo Māori) which included education pieces, a hangi lunch and kapa haka performances that brought local primary school children into multiple NZME offices. We view our diversity initiatives as constantly evolving and we strive to continually go further and do more to become a more inclusive organisation.

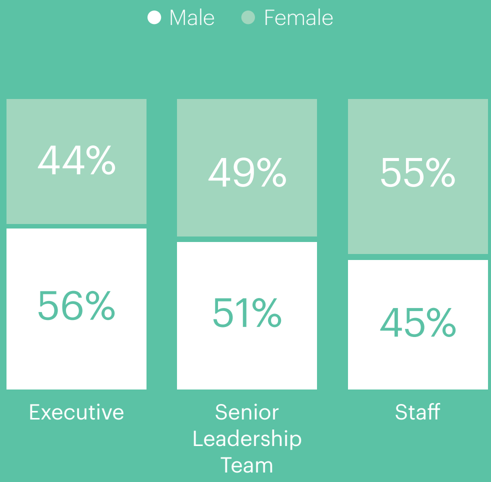
One example of evidence of this is our incorporation of te Reo, one of New Zealand's official languages, through our lunch time tutorials, dual language signage throughout our offices, our recent introduction of macrons throughout our business and our newspapers, and coaching for our on-air talent and executive team in pronunciation.

It was incredibly rewarding to be recognised externally for our efforts on inclusion and diversity when we were named as a finalist in the Emerging Diversity & Inclusion Category of the Diversity Works Awards and through our multiple nominations in a number of categories at the LGBTI Awards.

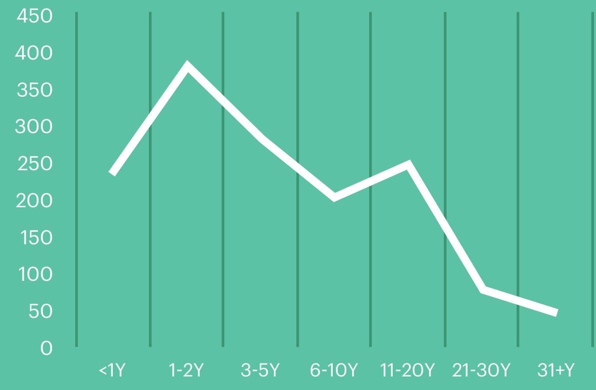
2018 was not without its challenges on the diversity front. The issues around the Auckland Pride Parade, saw our Diversity Committee pull together to make a collective decision on our stance after seeking advice, guidance and opinion from members of the rainbow community, both inside and outside of NZME, as well as various other organisations. Ultimately, we were not involved in the parade, but instead helped highlight the very real and raw issue of gay conversion therapy, by being a lead sponsor in bringing the acclaimed movie Boy Erased to New Zealand cinemas.

NZME'S PEOPLE
AS AT 31 DECEMBER 2018

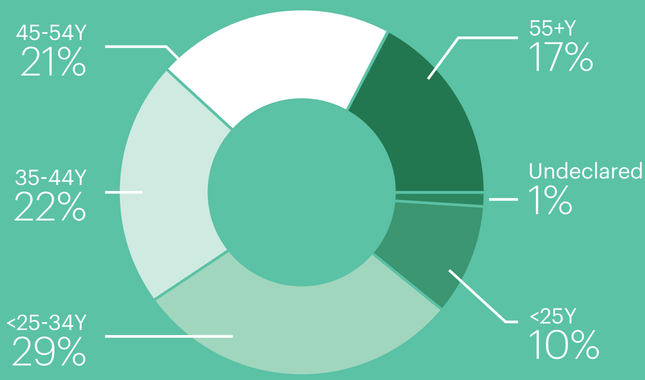
GENDER/LEVEL



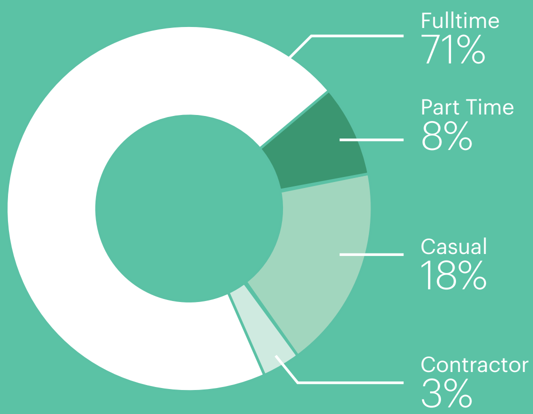
LENGTH OF SERVICE



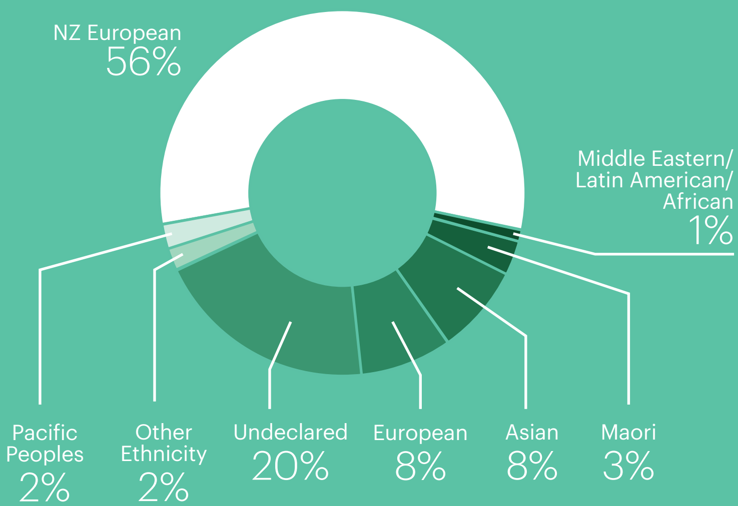
AGE GROUP



CONTRACT TYPE



ETHNICITY
including undeclared



PEOPLE

As we continue to build on being an inclusive workplace and strive to be an employer of choice, we were thrilled after going through a vigorous audit process to be re-awarded The Rainbow Tick for a further two-year period. We are well on our way to achieving our goal of ensuring all NZME employees attend inclusion training sessions facilitated by the Rainbow Tick organisation.

Results of the audit showed a continuing maturity in how health and safety is managed across the business, with increases in the level of engagement seen at both management and employee level. This was particularly evident within our Ellerslie print plant, which is considered our highest health and safety risk area.

We were thrilled after going through a vigorous audit process to be re-awarded The Rainbow Tick for a further two-year period.

Youth employment continues to be a focus for our organisation. Wherever possible we aim to give our experience and expertise to help grow youth into their future careers. This includes being the lead sponsor of events such as the New Zealand Careers Expo, which attracts thousands of young Kiwis throughout New Zealand every year, as well as maintaining close links with secondary schools and tertiary training providers to develop opportunities for youth. We maintain an open-door policy in terms of bringing youth into our organisation, and this takes many forms from tours and talks through to internships and work experience days.

HEALTH AND SAFETY

At NZME we believe that a healthy and safe work environment contributes to our success. We're committed to ensuring we have a framework, culture and practices in place to protect our people, contractors and customers.

During May and June 2018, NZME engaged Ernst & Young to undertake an internal health and safety audit to determine how our existing health and safety framework, policies, procedures and relevant documentation aligns to and complies with the Health and Safety at Work Act 2015, industry best practice and other relevant standards.

As part of our commitment to continual improvement in the prevention and management of health and safety, NZME has committed to achieving the following six health and safety priorities:

1. Our leaders will be proactively involved in supporting the health, safety and wellbeing of our people.
2. We will have a consistent approach to managing health, safety and wellbeing across all locations.
3. We will maintain safety excellence within our print plant.
4. We will provide a consistently safe and secure environment for anyone required to work alone.
5. Our vehicle fleet will be managed and operated in a manner that significantly reduces risk to people and property.
6. We will actively manage risk to mental health and provide a work environment that is supportive of people experiencing mental health issues.

WELLNESS

We again hosted two wellness weeks during the year, one in April and one in November. These weeks provide our people with the opportunity to spend some time reflecting on their health and wellbeing. This year we partnered with some of our key clients and local small businesses across the country to offer key themes including: Mental Health Monday, Healthy Eating Tuesday, Activewear Wednesday, Financial Fitness Thursday and Feel Good Friday.

ENGAGEMENT

We continue to believe that an engaging work environment is essential to us achieving our goals. In our engagement survey, the score increased 6% year on year, and we were pleased with the participation rate. Action plans continue at a team level to work on opportunity areas. To foster an inclusive and engaging workplace, we give our people opportunities to engage and interact with our CEO and senior leaders. Our CEO is regularly joined by other members of the executive for his 'Kitchen Catch-ups' where different teams in Auckland get to hear a quick update from the CEO and then engage in an open Q&A session. The CEO regularly invites someone from the business to join him as 'CEO for the Day' to get an inside look into what being the CEO entails. Boggsy's Bus has continued as a means to build a connection with all our people in regional offices around the country. As part of this initiative, the CEO and others visit a number of offices in the regions to explain our strategic priorities and hear their questions and ideas.

Our reward and recognition programme is also aimed at increasing employee engagement. It seeks to recognise the everyday efforts of our people through 'Shouts Outs' and to reward 'NZME Champions' who live our Company values and go over and above to deliver. In 2018, the programme recognised 98 Champions (with 596 nominations) and an additional 714 Shout Outs.

To foster leadership, out of the box thinking and creative solutions, a small group of around 25 people continued to participate in the Kickstarters programme.

Wellness week gives our people an opportunity to spend some time reflecting on health and wellbeing.

PEOPLE

AWARDS

NZME is proud to be the home of some of New Zealand's best talent and 2018 saw many wins across digital, print, radio and marketing at various award ceremonies.

At the 2018 New Zealand Radio Awards, NZME walked away with top awards including:

- Outstanding Contribution to Radio: Mike Hosking;
- Best Talk Presenter, Breakfast or Drive: Mike Hosking, NewstalkZB;
- Best Talk Presenter, Other: Marcus Lush, NewstalkZB;
- Best Newsreader: Niva Retimanu, NewstalkZB;
- Best Content Director: Jason Winstanley and Nadia Tolich, NewstalkZB;
- Best Sports Story – Team Coverage: The America's Cup, NewstalkZB/Radio Sport;
- Best Sports Reader, Presenter or Commentator: Martin Devlin, Radio Sport;
- Best Music Breakfast Show, Network: Fletch, Vaughan and Megan, ZM;
- Best Marketing Campaign: $50,000 Secret Sound, ZM;
- Best Network Station Promotion: Flochella, ZM;
- Best Digital Content: zmonline.com;
- Best Video: Neil Finn, Bhuja TV, Radio Hauraki, & Lorde: The Babysitter, ZM;
- Best Community Campaign: Pledge for Plunket, The Hits;
- Services to Broadcasting: Bryan Waddle and Peter Everett.

The New Zealand Herald had a fantastic showing at the 2018 Voyager awards.

- Best News Website or App: nzherald.co.nz;
- Newspaper of the Year and Weekly Newspaper of the Year: Weekend Herald;
- Best Editorial Campaign or Project: nzherald.co.nz for Break the Silence;
- Best Newspaper Front Page: Hawke's Bay Today;
- Opinion Writer of the Year: Steve Braunias;
- Best Investigation: Olivia Carville for What becomes of the Broken Hearted;
- Business Journalist of the Year: Matt Nippert;
- Political Journalist of the Year: Audrey Young;
- Best Team Video, Feature: New Zealand Herald for Under the Bridge;
- Matt Nippert was also awarded the Supreme Individual Prize, with a scholarship to Wolfson College, Cambridge University.

The New Zealand Herald also won the prestigious Daily News Brand of the Year award at the Asia-Pacific News Media Awards, together with seven awards across the marketing and advertising categories.

The NZME marketing team was recognised at the Public Relations Institute of New Zealand Awards with a Highly Commended award for our internal communications team, for their Boggsy's Bus initiative.

The Ellerslie team took home the Special Recognition Award and a gold medal in Newspaper Publications and the Pride in Print awards.

At the INMA (International News Media Association) Awards held in Washington DC, NZME received an honorable mention for Best Brand Awareness Campaign, Discover More: nzherald.co.nz relaunch; Second Place in the Best Public Relations or Community Service Campaign, Break The Silence; Third Place in Best Use of Mobile, nzherald.co.nz redesign; and First Place in Best Execution of Print Advertising, The Inequality Issue.

Our marketing team was also recognised at the New Zealand Marketing Awards, winning Best Marketing Campaign (Media).

NZME was involved with The Inequality Issue Project in collaboration with FCB Media and Westpac NZ, and were awarded the Best Small Budget, Best Creative Media Idea, Best Collaboration and Best in Show awards at the 2018 Beacon Awards.

THE NZME BOARD

A Peter Cullinane
Independent Chair

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 is the founder and Chairman of Lewis Road Creamery Limited, and is also a Director of Sanford Limited. Peter was previously on the Board of HT&E Limited (listed on the ASX), WPP AUNZ Limited and SKYCITY Entertainment Group Limited.

B Carol Campbell
Independent Director

Carol Campbell has more than 30 years of experience as a chartered accountant. Carol was a partner at Ernst & Young for over 25 years and has extensive financial experience and a sound understanding of efficient board governance. Carol is a director of NZ Post Limited, Kiwibank Limited, Kingfish Limited, Barramundi Limited, Marlin Global Limited, T&G Global Limited, Asset Plus Limited, Chubb Insurance Limited and a number of other private companies.

C David Gibson
Independent Director

David Gibson has a strong background in strategy and finance with over 20 years' investment banking experience, including as Co-Head of Investment Banking in New Zealand for Deutsche Bank and Deutsche Craigs. During his career David has advised on many of New Zealand's largest capital market transactions, including within the media industry. David is also a trustee for Diocesan School for Girls and a Director of Rangatira Limited.

D Barbara Chapman
Independent Director

Barbara Chapman served as Chief Executive and Managing Director of ASB Bank Limited from 2011 until 2 February 2018. She has extensive business experience gained through a successful career in the banking industry commencing with the Commonwealth Bank Group in 1994. During her career she has held a number of senior and executive roles in retail banking, marketing, communications and human resources. Barbara is passionate about people and culture, and promoting best practice in community, governance and sustainability. She has recently embarked on a corporate governance career and currently holds independent directorships on the Boards of Genesis Energy Limited, Fletcher Building Limited and IAG New Zealand Limited. She also acts as director of the New Zealand Initiative, patron of the New Zealand Rainbow Tick Excellence Awards, and holds a seat on the Reserve Bank Act Review Panel and the Prime Minister's Business Advisory Council.

E Sussan Turner
Independent Director

For the past 25 years Sussan has held senior leadership roles across media companies, including Group CEO of MediaWorks, Managing Director of Radio Otago and CEO of RadioWorks. She is currently Group CEO and Director of Aspire2 Group Limited, one of the leading Private Tertiary Education groups in New Zealand and is passionate about building executive teams and company cultures. Sussan has extensive experience as a director and is currently Pro Chancellor of Auckland University of Technology, Co-Chair of Organic Initiative Limited and trustee of the Waitemata District Health Board's Well Foundation.

THE NZME EXECUTIVE TEAM

A Michael Boggs
Chief Executive Officer

Michael Boggs joined NZME in March 2015 as Chief Financial Officer and was appointed Chief Executive Officer in March 2016. Michael has been integral in developing and implementing NZME's strategy to establish new revenue streams and retain revenue in its traditional media brands and mastheads.

Prior to joining NZME, Michael was the Chief Financial Officer of TOWER Limited. While at TOWER, Michael oversaw the investment operations, Pacific Islands operations and earthquake recovery programme and managed the divestment of the life insurance, health insurance and investment management businesses.

Michael has also held senior management roles in major telecommunications and technology companies, including TelstraClear and Clear Communications and in 2014, he was named 'CFO of the Year' at the New Zealand CFO Awards.

Michael is a Chartered Accountant and graduate of the Executive Development program at Wharton Business School.

B David Mackrell
Chief Financial Officer

David was appointed CFO of NZME in March 2019, joining NZME from his previous position as CFO of Heartland Bank. David is a highly experienced finance professional who holds a Bachelor of Management Studies (Hons) majoring in both Finance and Accounting.

David started his professional career at Ernst & Young as an Auditor before joining Air New Zealand in 1992 where, during twenty five years with the airline, he held a number of senior financial and commercial roles, including Deputy Chief Financial Officer.

C Laura Maxwell
Chief Digital Officer

Laura joined The Radio Network as a Commercial Director in July 2013, moving to the role of Group Director Digital Media in 2014. In 2015, Laura was promoted to Group Revenue Director and this title transitioned to Chief Commercial Officer as part of the NZME transformation. Laura was appointed Chief Digital Officer in September 2017. Prior to joining the NZME group, Laura held the position of General Manager/Director for Yahoo! New Zealand. Laura has over 25 years of experience in media and is well known and respected in the industry, having held roles including Sales Director for both APN Outdoor and Buspak New Zealand. She is the immediate past Chair of the Interactive Advertising Bureau and a current Board member.

D Matt Headland
Chief Commercial Officer

Matt joined NZME as Head of Agency Sales in August 2016 and in September 2017 he was appointed Chief Commercial Officer. During his time at NZME Matt has restructured and revitalised the commercial team.

Prior to joining the NZME group, Matt held the position of Director of National Direct Sales TV, Radio and Digital at MediaWorks New Zealand. Matt has over 20 years of experience in media, entertainment and advertising industries, where he has lead change and revenue growth across multiple businesses, including as Country Manager EMI Music New Zealand, NZ Sales Manager MTV Networks, and Head of Marketing EMI New Zealand. He is also Chair of The Radio Bureau Board.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THE NZME EXECUTIVE TEAM

E Shayne Currie
Managing Editor

Shayne has been a journalist for 30 years and in senior newsroom leadership roles for more than two decades – overseeing major and innovative newsroom changes across New Zealand. As NZME managing editor, Shayne leads a team of more than 300 editoral staff and broadcasters from the New Zealand Herald, NewstalkZB and Radio Sport, as well as NZME's five regional daily newspapers and more than 20 community titles.

A former editor of the New Zealand Herald and Herald on Sunday, Shayne has helped lead major editorial initiatives including the launch of the Herald on Sunday in 2004 and the New Zealand Herald's move to compact format in 2012. He is NZME's first managing editor, overseeing since 2015, the unique mix of digital, print, audio and visual storytelling. Shayne has worked in newsrooms across New Zealand and in New York, and in 2016 he was awarded the Wolfson Scholarship at Cambridge University in the UK, studying audience patterns in the digital age.

F Dean Buchanan
Group Director, Entertainment

Dean has over two decades of experience in developing world class content and talent in New Zealand and internationally. Prior to joining The Radio Network as Chief Content Officer in September of 2013 and then Managing Director Radio, Dean was an international consultant in the UK and Europe. He then joined DMG Radio Australia as Group Programme Director and was responsible for launching the highly successful Nova Network.

Dean has vast multimedia experience having worked in Touring with TV Touring and established a successful talent management company Plus1 Talent, developing the futures of many key Australian TV and radio talent.

G Matthew Wilson
Chief Operations Officer

Matthew has lead NZME's operational teams for two years. With a passion for media, Matthew has over two decades of experience working across NZME's newspaper brands, including finance roles in print, commercial, content and corporate through to leading the Newspaper Sales, Print and Herald product functions.

Matthew was integral to the launch of the Weekend Herald brand and the Herald on Sunday newspaper in 2004, consolidated newspaper sales and distribution functions across NZME in 2013 and led the development of NZME's highly successful distribution services business in 2015. Matthew's extensive experience and knowledge of the business and its brands helps drive NZME's operating performance.

H Katie Mills
Chief Marketing Officer

Prior to joining NZME in December 2018 as Chief Marketing Officer, Katie was the Group Marketing Director at Aspire2 Group Limited and was previously General Manager (Global) Marketing & Communications at Opus International Consultants. Katie also spent 15 years at MediaWorks in senior leadership roles including Head of Marketing, successfully developing and delivering marketing and brand strategies for a portfolio of radio, digital, event and television ventures.

I Allison Whitney
General Counsel & Company Secretary

Allison joined NZME in 2013 and with over 20 years' legal experience, manages the provision of legal advice and company secretarial services across the NZME group – bringing corporate, commercial, intellectual property, consumer and media law experience to the table.

Prior to commencing her role at NZME, Allison held roles both in-house and in private practice, including six years as Group Legal Advisor to London-based International Media Group; UBM plc. During her time at NZME, Allison has provided legal guidance to the NZME Group through several significant milestones and projects, including the 2014 re-brand from APN to NZME, and the 2016 demerger from APN and listing of NZME on the NZX and ASX.

CORPORATE GOVERNANCE

GOVERNANCE FRAMEWORK

The Company is 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 Code 2017, effective for reporting periods from 1 October 2017 ("NZX Code").

The Group is committed to having a strong governance framework and therefore complies with the recommendations of the NZX Code (unless specifically stated otherwise). The corporate governance policies referred to in this section reflect the Group's governance framework as at 31 December 2018 (unless otherwise stated) and are available on the Company's website: www.nzme.co.nz/corporate governance.

PRINCIPLE 1 - CODE OF ETHICAL BEHAVIOUR

Directors should set high standards of ethical behaviour, model this behaviour and hold management accountable for these standards being followed throughout the organisation.

Code of Conduct & Ethics

The Company's Code of Conduct & 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. The Code of Conduct & Ethics comprises certain fundamental principles and demonstrates the high standards of conduct expected of us. Reporting of breaches of the Code is encouraged and steps for doing so are set out in the Code of Conduct & Ethics and the Whistleblower Policy. The Company provides training on the Code of Conduct & Ethics in the form of a video series on the key points relevant to employees.

The Company also has an Editorial Code of Ethics highlighting that our principal responsibilities are to the community and the truth and our undertaking to maintain the highest ethical standards in our journalism while balancing the right of the individual with the public's right to know.

Securities Trading Policy

The Securities Trading Policy details the Company's trading policy and guidelines, including trading restrictions on dealing in the Company's quoted financial products which applies to the directors and all employees. The Securities Trading Policy places additional trading restrictions on the directors, the CEO and his direct reports (and employees reporting directly to them) and all participants in any NZME employment incentive plans.

PRINCIPLE 2 - BOARD COMPOSITION & PERFORMANCE

To ensure an effective Board, there should be a balance of independence, skills, knowledge, experience and perspectives.

Role of the Board

The business and affairs of the Company are managed under the direction and supervision of the Board. The directors acknowledge their duty to act in good faith and in the best interests of the Company. The objective of the Company is to generate growth, corporate profit and shareholder return from the activities of the Group. In pursuing this objective the role of the Board is to assume accountability for the success of the Company by taking overall responsibility for the strategic direction and monitoring of operational management of the Group in accordance with good corporate governance principles. More details regarding the main functions of the Board can be found in the Board Charter.

Director Independence and 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 23 of the Annual Report. The roles of the Chair and Chief Executive Officer are exercised by different persons.

Nomination and 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.

Induction and Access To Information and Advice

On appointment to the Board a director will be given a copy of the Board Charter, an appointment letter covering the role of the Board, the Board's expectations of the director and any particular terms of his or her appointment. The director will be offered induction training as to the responsibilities of the directors and to enable the director to become familiar with the Company's operations and sites. All directors have access to the advice and assistance of the General Counsel 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 fulfill their duties and responsibilities.

Skills and 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. Directors are expected to maintain their knowledge of the latest governance and business practices in order to perform their duties and the Company supports their development.

Directors and 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 directors and officers insurance contract premiums was $261,935 in 2018.

Performance Review

The Chairperson meets annually with directors of the Company to discuss individual performance of directors. The Board reviews its performance as a whole, and the performance of its committees, on an annual basis. The Board may choose to use external facilitators, where appropriate, to assist with reviewing the performance of directors, the Board and its committees.

CORPORATE GOVERNANCE CONTINUED

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 is currently operating in accordance with, and applying the principles of its Diversity Policy. Also refer to the People section on page 16 of the Annual Report for more information on our diverse workforce.

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

As at	Board		Officers[A]	
	Male	Female	Male	Female
31 December 2018	2	3	5	4
31 December 2017	2	1	6	3

PRINCIPLE 3 - BOARD COMMITTEES

The Board should use committees where this will enhance its effectiveness in key areas, while retaining Board responsibility.

The Board has three standing Committees, the Audit & Risk Committee, the Governance & Remuneration Committee and the Corporate Social Responsibility Committee, to assist in carrying out its responsibilities. The Committees operate under Board approved charters, with the exception of the Corporate Social Responsibility Committee, for which the Board intends to adopt a charter at the April 2019 Board meeting. The Board may establish other committees from time to time to deal with specific projects or matters relating to the Company's various activities. The Board does not have a separate Health & Safety Committee as Health & Safety is considered by the full Board. The Board did not identify a need for any other standing Board committees. The Company also has an NZME Takeover Response Manual (not publicly available) as recommended by Recommendation 3.6 of the NZX Code (adopted 12 December 2017).

Audit & Risk Committee

The Committee consists of at least three non-executive directors, with the majority being also independent directors (one of whom has 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 which is available on the Company's website.

(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.

For the year ended 31 December 2018, directors Barbara Chapman and David Gibson were members of the Audit & Risk Committee and it was chaired by Carol Campbell. Employees and external parties may attend meetings of the Audit & Risk Committee at the invitation of the Audit & Risk Committee.

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, in consultation with the CEO, the remuneration packages of executives reporting directly to the CEO.

The Governance & Remuneration Committee also makes recommendations to the 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 NZX. For further information, refer to the Committee's charter available on the Company's website. For the year ended 31 December 2018, directors Peter Cullinane and Sussan Turner were members of the Governance & Remuneration Committee and it was chaired by David Gibson. Employees and external parties may attend meetings of the Governance & Remuneration Committee at the invitation of the Governance & Remuneration Committee.

Corporate Social Responsibility Committee

The Corporate Social Responsibility ("CSR") Committee was established in 2018 and assists the Board of Directors in fulfilling its corporate social responsibilities, including objective setting and strategy, and ensuring NZME policies and practices are consistent with its CSR strategy. For the year ended 31 December 2018, directors Peter Cullinane and Sussan Turner were members of the CSR Committee and it was chaired by Barbara Chapman. Employees and external parties may attend meetings of the CSR Committee at the invitation of the CSR Committee.

PRINCIPLE 4 - REPORTING & DISCLOSURE

The Board should demand integrity in financial and non-financial reporting, and in the timeliness and balance of corporate disclosures.

Market Disclosure Policy

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 Market Disclosure Policy is designed to ensure that:

- There is full and timely disclosure of the Company's activities and price sensitive information to shareholders and the market; and
- All stakeholders (including shareholders, the market and other interested parties) have an equal opportunity to receive and obtain externally available information issued by the Company.

The Company will immediately notify the market of any material information concerning the Company in accordance with legislative and regulatory disclosure requirements.

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):

- Board Charter
- Code of Conduct & Ethics
- Remuneration Policy
- 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

CORPORATE GOVERNANCE CONTINUED

Constitution

The Company's constitution ("Constitution") is filed on the Companies Office website (http://www.companies.govt.nz/co/1181195).

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.

Financial Reporting and Disclosure

The Company is committed to providing financial reporting that is balanced, clear and objective. The Audit & Risk Committee oversees the quality, integrity and timeliness of external reporting. The Group's Consolidated Financial Statements for the year ended 31 December 2018 are set out on pages 44 to 101 of the Annual Report. Also refer to the reports from the Chair and the CEO in this Annual Report and the NZME Full Year 2018 Results Presentation (available on the Company's website) for additional information.

Non-Financial Reporting and Disclosure

The Company provides non-financial disclosures relating to Health & Safety, Risk Management, our interaction with our communities and our impact on the environment. We also include information about our performance against our operational priorities for the year. Information about our strategic priorities for 2019 is included on page 8 and 9 of the Annual Report.

NZME does not currently report under a recognised environmental, social and governance ("ESG") framework, but aims to provide non-financial information that would be useful for our stakeholders. This includes the information referred to above. We intend to continue to enhance our non-financial reporting initiatives.

PRINCIPLE 5 - REMUNERATION

The remuneration of directors and executives should be transparent, fair and reasonable.

Remuneration Policy

The Remuneration Policy outlines the Company's approach to the remuneration of its directors and executives. The Governance & Remuneration Committee is responsible for reviewing non-executive directors' remuneration and benefits. The pool available to be paid to non-executive directors is subject to shareholder approval. The levels of fixed fees payable to non-executive directors should reflect the time commitment and responsibilities of the role. The Governance & Remuneration Committee will obtain independent advice, as necessary, and will also consider the results of market comparison and a benchmarking assessment in setting the fixed fees payable to non-executive directors.

While the Company does not pay equity based remuneration to its non-executive directors, it encourages those directors to hold shares in the Company to better align their interests with the interests of other security holders.

The Governance & Remuneration Committee is also responsible for reviewing the remuneration of the CEO and any executive directors and, in consultation with the CEO, for reviewing the remuneration packages of executives reporting directly to the CEO. The Company conducts external benchmarking analysis in order to determine the market rate for a role. The Company provides a combination of cash and non-cash benefits and takes a total remuneration approach. The Company reviews remuneration with the objective of achieving pay equity, including by gender.

Directors' Remuneration

The fees paid to each director depends on the duties of the director, including committee work. Current fees per annum are as follows:

	Fees ($)
Chair 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 2018 (IN $)

	Date appointed	Date resigned / retired	Chair of the Board	Board Member	Committee Chair	Committee Member	Total[A]
Peter Cullinane	24 June 2016	N/A	150,000		3,975	17,500	**171,475**
Carol Campbell	24 June 2016	N/A		100,000	20,000	4,753	**124,753**
David Gibson	8 December 2017	N/A		100,000	16,025	12,500	**128,525**
Barbara Chapman	18 April 2018	N/A		70,201	10,000	5,000	**85,201**
Sussan Turner	16 July 2018	N/A		46,050		9,210	**55,260**
Total fees paid							**565,215**

(A) 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.

As at 31 December 2018 NZME Limited had the following committees:

Committees	Chair	Members
NZME Board	Peter Cullinane	Carol Campbell, David Gibson, Barbara Chapman, Sussan Turner
Governance & Remuneration	David Gibson	Peter Cullinane, Sussan Turner
Audit & Risk	Carol Campbell	David Gibson, Barbara Chapman
Corporate Social Responsibility	Barbara Chapman	Peter Cullinane, Sussan Turner

CORPORATE GOVERNANCE
CONTINUED

Board & Committee Attendance 1 January 2018 to 31 December 2018

Director	Board	Audit & Risk	Governance & Remuneration	Corporate Social Responsibility
Peter Cullinane	7 of 7	1 of 1	5 of 5	1 of 1
Carol Campbell	7 of 7	4 of 4	3 of 3	N/A
David Gibson	7 of 7	4 of 4	5 of 5	N/A
Barbara Chapman	5 of 5*	3 of 3*	N/A	1 of 1
Sussan Turner	3 of 4*	N/A	2 of 2*	1 of 1

*Barbara Chapman was appointed as a director on 18 April 2018 and Sussan Turner was appointed 16 July 2018.

Figures reflect the meetings the director was eligible to attend.

Chief Executive Officer's Remuneration

	Salary[A]	Bonus[B]	Benefits[C]	Total
Michael Boggs	856,202	432,023	38,647	**1,326,871**

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

Chief Executive Officer's Remuneration

Michael Boggs held 141,167 shares in the company as at 31 December 2018 and earned $11,293 in dividends paid by the company on shares held by him during the year. In addition to the remuneration disclosed above as at 19 February 2019, Michael Boggs held 1,119,022 performance rights issued to him under the Group's Total Incentive Plan ("TIP"). Please refer to note 4.3 of the Consolidated Financial Statements for a summary of the TIP and the performance criteria used to determine performance based payments. Under the 2016 TIP the participants will be entitled to additional shares (not reflected in the rights above) when the rights are exercised (on 31 December 2019) for any dividends foregone during the period 1 January 2017 to 31 December 2019. Under the 2017 TIP the participants will be entitled to additional shares (not reflected in the rights above) or a cash payment when the rights are exercised (on 31 December 2020) for any dividends forgone during the period 1 January 2018 to 31 December 2020. No Bonus payments have been made in 2019 for the 2018 year, reflecting the lower financial performance of the Group during the period.

The Bonus above reflects payments in 2018, based on 2017 performance.

Directors of Subsidiary Companies

As at 31 December 2018, Michael Boggs (CEO) and Sarah Judkins (Chief Strategy Officer & Interim Chief Financial Officer – resigned in March 2019) were directors of the wholly owned subsidiaries listed in Note 6.1 of the Consolidated Financial Statements, other than NZME Australia Pty Limited. Michael Boggs and Mark O'Sullivan (a professional director resident in Australia) were directors of NZME Australia Pty Limited as at 31 December 2018. Michael Boggs, Sarah Judkins and Laura Maxwell (Chief Digital Officer) were directors of the subsidiary OneRoof Limited, in which an 80% interest was held, listed in Note 6.1 of the Consolidated Financial Statements. Other than Mark O'Sullivan who received $8,642 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, Sarah Judkins and Laura Maxwell receive remuneration as employees of the Company which are not related to their duties as directors of these companies.

Directors of Associates, Joint Ventures and Joint Operations

Associates, joint ventures and joint operations are listed in Note 6.2 of the Consolidated Financial Statements. As at 31 December 2018 the following roles were held:

Associates, Joint Ventures and Joint Operations	Officer[A]	Designation
New Zealand Press Association Limited	Michael Boggs Shayne Currie	Director Director
The Newspaper Publishers Association of New Zealand Incorporated	Michael Boggs Shayne Currie	Member – Board of control Member – Board of control
Chinese New Zealand Herald Limited	Sarah Judkins, Laura Maxwell	Director
Restaurant Hub Limited	Sarah Judkins, Laura Maxwell	Director
Eveve New Zealand Limited	Sarah Judkins, Laura Maxwell	Director
KPEX Limited	Sarah Judkins	Director
Ratebroker Limited	Michael Boggs	Director (resigned 14 February 2019)
The Radio Bureau (unincorporated joint venture)	Matt Headland, Paul Hancox, Fiona Hamilton	Representative – Board
Herald Foundation	Michael Boggs, Matt Wilson, Allison Whitney, Chris Jagusch	Trustee
Radio Broadcasters Association Incorporated	Dean Buchanan	Member – Board
The Wairoa Star Limited	Christopher Jagusch	Director

(A) The Officers did not receive any fees or other benefit for their services as directors to any of these associates, joint ventures and joint operations, however NZME employees do receive remuneration as employees of the Company which are not related to their duties as directors of these companies.

CORPORATE GOVERNANCE
CONTINUED

Employee Remuneration

The Group paid remuneration including benefits in excess of $100,000 to employees (other than directors) during the year ended 31 December 2018. 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	72	$300,001 - $310,000	1
$110,001 - $120,000	70	$310,001 - $320,000	1
$120,001 - $130,000	58	$320,001 - $330,000	5
$130,001 - $140,000	49	$330,001 - $340,000	3
$140,001 - $150,000	31	$340,001 - $350,000	3
$150,001 - $160,000	26	$350,001 - $360,000	4
$160,001 - $170,000	15	$370,001 - $380,000	1
$170,001 - $180,000	16	$380,001 - $390,000	1
$180,001 - $190,000	12	$390,001 - $400,000	2
$190,001 - $200,000	5	$400,001 - $410,000	2
$200,001 - $210,000	5	$420,001 - $430,000	1
$210,001 - $220,000	8	$430,001 - $440,000	2
$220,001 - $230,000	6	$440,001 - $450,000	1
$240,001 - $250,000	3	$470,001 - $480,000	1
$250,001 - $260,000	6	$610,001 - $620,000	2
$260,001 - $270,000	8	$640,001 - $650,000	1
$270,001 - $280,000	3	$1,320,001 - $1,330,000	1
$280,001 - $290,000	4		
$290,001 - $300,000	3		
Total number of employees that were paid remuneration of $100,000+			**432**

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

No Bonus payments have been made in 2019 for the 2018 year, reflecting the lower financial performance of the Group during the period.

PRINCIPLE 6 - RISK MANAGEMENT

Directors should have a sound understanding of the material risks faced by the issuer and how to manage them. The Board should regularly verify that the issuer has appropriate processes that identify and manage potential and material risks.

Risk Management Framework

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 CEO is responsible for:

- The management of strategic, operational and financial risk 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, 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;
- Workplace Health & Safety matters;
- Legal, regulatory and policy compliance;
- Technology and security matters;
- Business continuity planning.

The Group has a Head of Risk & Compliance who is responsible for providing guidance where required and developing tools, templates and policies that facilitate the identification, management and reporting of risk and supports the overall Risk Management Framework and Guidelines.

The Group is a diversified media company and is subject to diverse types of risk including, but not limited to cyber security, 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.

CORPORATE GOVERNANCE CONTINUED

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 Board on the appropriateness of NZME's Risk Management Framework and Guidelines. The NZME Head of Risk & Compliance reports to the NZME Risk Committee, Chief Financial Officer and the Audit & Risk Committee on the progress of the implementation of the Risk Management Framework and Guidelines.

For additional information on financial risks, please also refer to Note 4.8 of the Consolidated Financial Statements.

Health & Safety

The NZME Board Charter states that the role of the Board includes ensuring that the Group Health & Safety and environmental practices and culture comply with legal requirements, reflects best practice and are recognised by employees and contractors as key priorities for the Group. As noted earlier, NZME does not have a separate Board level Health & Safety Committee as Health & Safety is dealt with by the full Board.

Health & Safety is included on the NZME Board Risk Register. The NZME Annual Health & Safety Plan captures the projects and objectives for the year to respond to the identified risks. NZME records and monitors critical Health & Safety risks in a separate Health & Safety Risk Register. Currently that register is reviewed and monitored by the Risk Committee, who meet monthly and receive and review reporting on Health & Safety performance, trends and updates, with key matters and progress against the annual plan being reported to the Board. In 2018, areas of focus included dealing with risks relating to fatigue, wellbeing, traffic management and public exposure. Health & Safety advice and direction are overseen by the Culture and Performance team and a contracted Health & Safety Consultant.

NZME utilises the online safety management system "Vault" as the framework for how safety is managed within the business. Vault is used for incident reporting, contractor management, hazard and risk management, management of hazardous substances, risk monitoring and reporting.

Worker engagement and involvement is recognised as an important part of growing a positive workplace Health & Safety culture. At NZME, being actively involved in and contributing to Health & Safety is included in the GuideMe performance review template as a KPI for all employees and reviewed as part of the performance review process. Health & Safety training forms part of induction and ongoing training schedules to ensure awareness of NZME's Health & Safety obligations, critical risks and the resources available to satisfy these. To ensure effective worker involvement, NZME has multiple Health & Safety Committees in place across New Zealand that actively contribute to the management of risk and the effectiveness of controls in place throughout the business. Health & Safety performance is communicated throughout all levels of NZME through regular Senior Leadership team meetings and internal business communications.

NZME maintains a Wellness & Safety page on its intranet with sections for Safety at NZME (which includes training manuals, emergency procedures and safety induction documents) and a Wellness section (which includes information about our Employee Assistance Programme, wellness videos and wellness success stories).

PRINCIPLE 7 - AUDITORS

The Board should ensure the quality and independence of the external audit process.

Refer to note 2.2.4 of the Consolidated Financial Statements for fees paid to the auditors, PricewaterhouseCoopers, for the year ended 31 December 2018.

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. 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 and the Company 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 2018, 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.

The Company requires the external auditor to attend the Annual Shareholders Meeting ("ASM") to answer questions from shareholders in relation to the audit. The Group's auditor, PricewaterhouseCoopers, attended the last ASM on 21 June 2018.

Internal Audit

The Audit & Risk Committee is responsible for reviewing the integrity and effectiveness of the internal audit function. NZME operates a co-sourced internal audit programme that utilises a mix of self-certifications, scheduled control testing by Group Financial Services, ad hoc assignments, investigations by Risk & Compliance and a structured internal audit programme executed by external firms.

Any reporting from external parties is presented to the Audit & Risk Committee and any significant findings from other internal activities are reported to the Audit & Risk Committee in the Risk & Compliance report.

PRINCIPLE 8 - SHAREHOLDER RIGHTS & RELATIONS

The Board should respect the rights of shareholders and foster constructive relationships with shareholders that encourage them to engage with the issuer.

NZME seeks to regularly engage with shareholders to ensure they are informed about our activities and our progress against our stated priorities. NZME employs a General Manager Corporate Finance & Investor Relations to ensure any questions or feedback from shareholders are responded to promptly.

The NZME website has a dedicated Investor Relations section containing NZX / ASX announcements, presentations & webcasts, financial reports, frequently asked questions and other information that might be useful to our shareholders. The share registry is maintained by Link Market Services and their contact details are available under the Investor Relations section of the Company's website. Shareholders can elect to receive communications electronically.

Following each results announcement, NZME holds an investor call to present the results and to allow investors to ask questions. This is followed by an investor roadshow during which the Chief Executive Officer and other members of the Executive aim to meet with as many shareholders as possible.

Shareholders are entitled to exercise their voting rights as provided for under the applicable legislation and listing rules.

OTHER STATUTORY INFORMATION

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
Carol Campbell	Kiwibank Limited	Director
	Chubb Insurance New Zealand Limited	Director
	Nica Consulting Limited	Director
David Gibson	Diocesan School for Girls	Trustee
Barbara Chapman	Genesis Energy Limited	Chair
	The New Zealand Initiative	Director
	Fletcher Building Limited	Director
	IAG New Zealand Limited	Director
	New Zealand Rainbow Tick Excellence Awards	Patron
	Reserve Bank Act Review Panel	Member
	Prime Minister's Business Advisory Council	Member
Sussan Turner	Aspire2Group Limited	Director, CEO and shareholder
	Organic initiative Limited	Co-Chair and shareholder
	Waitemata District Health Board Well Foundation	Trustee
	Auckland University of Technology (AUT)	Pro Chancellor

The Interests Register also includes, pursuant to section 140(1) of the Companies Act 1993, entries for authorising the remuneration and particulars of indemnities and insurance for the directors.

DIRECTORS' INTEREST IN NZME SHARES

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

31 December 2018	Number
Peter Cullinane	68,286
Carol Campbell	50,000
Barbara Chapman	50,000
David Gibson	50,000

SHARE DEALING BY DIRECTORS

Details of individual directors' share dealings as entered in the Interests Register of the Company under section 148(2) of the Companies Act 1993 during the year ended 31 December 2018 are as follows (all dealings are in ordinary shares):

Director	Date	Nature of relevant interest	Acquisition/ disposal	No. of shares	Consideration
David Gibson	14 June 2018	Legal and beneficial holder	Acquisition	50,000	$42,741.05
Barbara Chapman	31 August 2018	Legal and beneficial holder	Acquisition	50,000	$32,890.32

SHAREHOLDER INFORMATION

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 noted below:

	Date of substantial security notice	Number of shares held	% of shares held
Auscap Asset Management Limited	30/10/2018	37,722,980	19.25
Renaissance Smaller Companies Pty Limited	7/09/2018	24,298,829	12.40
Forager Funds Management Pty Limited	19/09/2017	12,408,486	6.33

The total number of ordinary shares issued by the Company as at 31 December 2018 was 196,011,282. The Company did not have any other quoted voting products.

OTHER STATUTORY INFORMATION CONTINUED

Top 20 shareholders

As at 22 February 2019

	Number of shares held	% of shares held
Citicorp Nominees Pty Limited	52,737,531	26.91
J P Morgan Nominees Australia Limited	28,870,411	14.73
New Zealand Central Securities Depository Limited	26,768,593	13.66
HSBC Custody Nominees (Australia) Limited	20,311,405	10.36
National Nominees Limited	9,914,307	5.06
Walling Pty Limited	7,000,000	3.57
Forsyth Barr Custodians Limited	4,020,558	2.05
Pax Pasha Pty Limited	1,784,406	0.91
UBS Nominees Pty Limited	1,294,905	0.66
Xu Li & Zhen Zhen	1,084,178	0.55
Cs Third Nominees Pty Limited	899,855	0.46
FNZ Custodians Limited	862,412	0.44
HSBC Custody Nominees (Australia) Limited Gsco Eca	791,142	0.40
Goolestan Dinshaw Katrak	700,000	0.36
Rudie Pty Limited	698,427	0.36
ASB Nominees Limited	644,250	0.33
Bnp Paribas Nominees Pty Limited	636,681	0.32
Howard Cedric Zingel	627,292	0.32
Australian Executor Trustees Limited	530,281	0.27
Investment Custodial Services Limited	500,000	0.26
Peter George Wright	500,000	0.26

Spread of Quoted Security Holders

As at 31 December 2018

Range of Securities Held	Number of Investors	% of Total Investors	Shares Held	% of Shares Issued
1 to 1,000	3,665	62.77	981,578	0.50
1,001 to 5,000	1,193	20.43	2,867,885	1.46
5,001 to 10,000	372	6.37	2,844,160	1.45
10,001 to 50,000	465	7.96	11,343,024	5.79
50,001 to 100,000	66	1.13	4,806,737	2.45
Greater than 100,000	78	1.34	173,167,898	88.35
Total	**5,839**	**100**	**196,011,282**	**100**

OTHER INFORMATION

Waivers from the NZX

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

Donations

In accordance with section 211(1)(h) of the Companies Act 1993, NZME notes that the Group made donations of $841 during the year ended 31 December 2018. In addition, the Group provided in excess of $2.5 million of donated media placement to a range of charities.

Credit rating

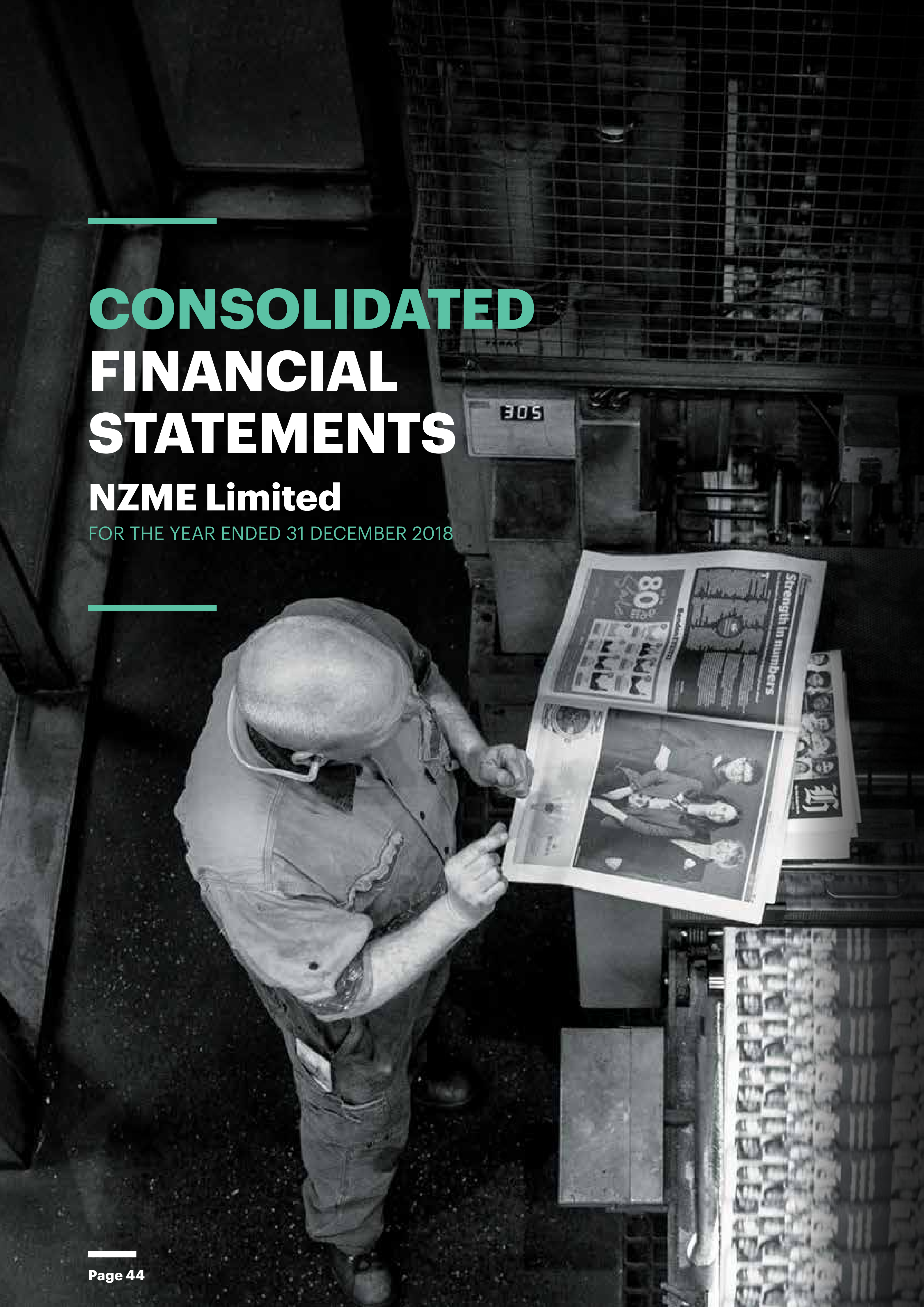
As at the date of this Annual Report, NZME did not have a credit rating.

Exercise of NZX disciplinary powers

For the year ended 31 December 2018, 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.

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 2018, none of the directors were appointed pursuant to Rule 3.3.8.



CONSOLIDATED FINANCIAL STATEMENTS

NZME Limited

FOR THE YEAR ENDED 31 DECEMBER 2018

CONTENTS

Consolidated Financial Statements

for the year ended 31 December 2018

* 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 is also included under the Basis of Preparation section on pages 53 to 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 2018, 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 2018 and the results of the Group's operations and cash flows for the year.

The consolidated financial statements for the Group as presented on pages 48 to 101 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

Peter Cullinane
Director

Carol Campbell
Director

Date: 18 February 2019

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2018

	Note	2018 $'000	2017 $'000
Revenue	2.1	**388,269**	390,688
Finance and other income	2.1	**769**	926
Total revenue and other income	2.1	**389,038**	391,614
Expenses from operations before finance costs, depreciation, amortisation	2.2.1	**(343,459)**	(332,839)
Depreciation & amortisation	2.2.2	**(24,555)**	(24,946)
Finance costs	2.2.3	**(4,636)**	(4,497)
Profit / (loss) from continuing operations before income tax expense		**16,388**	29,332
Income tax expense	5.1	**(4,816)**	(8,447)
Profit for the year		**11,572**	20,885
Profit for the year is attributable to:			
Owners of the Company		**11,735**	20,885
Non-controlling interests		**(163)**	-
Profit for the year		**11,572**	20,885

		Cents	Cents
Earnings per share attributable to the ordinary shareholders of the Company			
Basic / diluted earnings per share	2.3	**6.0**	10.7

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 2018

	Note	2018 $'000	2017 $'000
Profit for the year		**11,572**	20,885
Other comprehensive income			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations	4.2	**32**	(15)
Items that will not be reclassified to profit or loss			
Exchange and other differences applicable to non-controlling interests		**-**	-
Other comprehensive income, net of tax		**32**	(15)
Total comprehensive income		**11,604**	20,870
Total comprehensive income attributable to:			
Owners of the Company		**11,767**	20,870
Non-controlling interests		**(163)**	-
		11,604	20,870

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

CONSOLIDATED BALANCE SHEET

as at 31 December 2018

	Note	2018 $'000	2017 $'000
Current assets			
Cash and cash equivalents	4.7	**11,717**	9,570
Trade and other receivables	3.3	**58,694**	55,323
Inventories		**1,866**	1,926
Tax receivable		**898**	-
Total current assets		**73,175**	66,819
Non-current assets			
Intangible assets	3.1	**329,911**	330,553
Property, plant and equipment	3.2	**47,145**	56,031
Capital work in progress	3.2.1	**8,758**	8,694
Other financial assets	6.3.2	**3,788**	5,988
Total non-current assets		**389,602**	401,266
Total assets		**462,777**	468,085
Current liabilities			
Trade and other payables	3.4	**52,036**	56,894
Current tax provision		**-**	7,567
Total current liabilities		**52,036**	64,461
Non-current liabilities			
Trade and other payables	3.4	**13,665**	13,565
Interest bearing liabilities	4.5	**109,992**	99,788
Deferred tax liabilities	5.2	**448**	1,239
Total non-current liabilities		**124,105**	114,592
Total liabilities		**176,141**	179,053
Net assets		**286,636**	289,032
Equity			
Share capital	4.1	**360,363**	360,363
Reserves	4.2	**2,998**	2,385
Retained earnings		**(77,662)**	(73,716)
Total Company interest		**285,699**	289,032
Non-controlling interests		**937**	-
Total equity		**286,636**	289,032

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 2018

		Attributable to owners of the company					
	Note	Share capital $'000	Reserves $'000	Retained earnings $'000	**Total $'000**	Non-controlling interests $'000	**Total Equity $'000**
Balance at 1 January 2017		360,363	(5,198)	(69,606)	**285,559**	-	**285,559**
Profit for the year		-	-	20,885	**20,885**	-	**20,885**
Other comprehensive income		-	(15)	-	**(15)**	-	**(15)**
Total comprehensive income		-	(15)	20,885	**20,870**	-	**20,870**
Dividends paid		-	-	(18,622)	**(18,622)**	-	**(18,622)**
Supplementary dividends paid		-	-	(2,785)	**(2,785)**	-	**(2,785)**
Tax credit on supplementary dividends		-	-	2,785	**2,785**	-	**2,785**
Transfer from transactions with non-controlling interest reserve	4.2	-	6,373	(6,373)	**-**	-	**-**
Share based payments expense	4.2	-	1,225	-	**1,225**	-	**1,225**
Balance at 31 December 2017		360,363	2,385	(73,716)	**289,032**	-	**289,032**
Balance at 1 January 2018		360,363	2,385	(73,716)	**289,032**	-	**289,032**
Profit for the year		-	-	11,735	**11,735**	(163)	**11,572**
Other comprehensive income		-	32	-	**32**	-	**32**
Total comprehensive income		-	32	11,735	**11,767**	(163)	**11,604**
Dividends paid		-	-	(15,681)	**(15,681)**	-	**(15,681)**
Supplementary dividends paid		-	-	(1,864)	**(1,864)**	-	**(1,864)**
Tax credit on supplementary dividends		-	-	1,864	**1,864**	-	**1,864**
Share based payments expense	4.2	-	581	-	**581**	-	**581**
Equity transactions with non-controlling interests		-	-	-	**-**	1,100	**1,100**
Balance at 31 December 2018		360,363	2,998	(77,662)	**285,699**	937	**286,636**

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 2018

	Note	2018 $'000	2017 $'000
Cash flows from operating activities			
Receipts from customers		**378,082**	387,228
Payments to suppliers and employees		**(338,289)**	(336,626)
Dividends received		**143**	128
Interest received		**80**	139
Interest paid		**(4,096)**	(5,804)
Income taxes paid		**(14,078)**	(5,610)
Net cash inflows / (outflows) from operating activities	4.7	**21,842**	39,455
Cash flows from investing activities			
Payments for property, plant and equipment		**(6,000)**	(4,881)
Payments for intangible assets including software		**(8,080)**	(10,165)
Proceeds from sale of property, plant and equipment		**30**	27
Payments for investment in other entities		**(49)**	-
Net cash inflows / (outflows) from investing activities		**(14,099)**	(15,019)
Cash flows from financing activities			
Proceeds from borrowings		**107,400**	84,000
Repayments of borrowings		**(96,900)**	(96,486)
Payments for borrowing cost		**(415)**	-
Dividends paid to Company's shareholders		**(15,681)**	(18,622)
Net cash inflows / (outflows) from financing activities		**(5,596)**	(31,108)
Net increase / (decrease) in cash and cash equivalents		**2,147**	(6,672)
Cash and cash equivalents at beginning of the year		**9,570**	16,242
Cash and cash equivalents at end of the year	4.7	**11,717**	9,570

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 and ASX:NZM) 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 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 relevant note. These policies have been consistently applied to all the years presented, unless otherwise stated. These consolidated financial statements are presented for the Group and were approved for issue by the Board of Directors on 18 February 2019.

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 to ensure consistency with current year disclosures and to provide more meaningful comparison.

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.

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 the exception of receivables and payables, which include GST invoiced. In the statement of cash flows, receipts from customers and payments to suppliers are shown exclusive of GST.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1.3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the consolidated financial statements requires the use of certain significant judgments, accounting estimates and assumptions, including judgments, 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. A list of those areas of significant estimation or judgment and a reference to the notes containing further information is provided below:

Areas of significant accounting estimates or judgments	Note
Impact of Performance Rights on earnings per share	2.3
Determination of the number of reportable segments	2.4.1
Intangible assets with indefinite useful lives	3.1
Assumptions used in testing for impairment of indefinite life intangible assets	3.1.1

1.4 SIGNIFICANT CHANGES

1.4.1 Proposed Merger with Stuff Limited

On 25 September 2018 the Court of Appeal upheld the High Court's decision to decline the proposed merger of NZME Limited and Stuff Limited.

On 24 October 2018 the Company announced that it would not appeal the Court of Appeal's decision.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1.5 NEW STANDARDS AND INTERPRETATIONS ADOPTED IN THE CURRENT PERIOD

The Group adopted NZ IFRS 15 *Revenue from Contracts with Customers* for the first time on 1 January 2018. The Group applied NZ IFRS 15 retrospectively with the cumulative effect of applying the standard for the first time recognised at the date of initial application (1 January 2018). Comparative figures for the period ended 31 December 2017 have therefore not been restated. The Group did not identify any significant changes in the timing of revenue recognition as a result of the adoption of NZ IFRS 15 and accordingly there was no adjustment for the cumulative effect against opening retained earnings at 1 January 2018. The Group did, however, identify instances resulting in revenue relating to certain types of contracts being recognised at the gross amount that have been presented at an amount net of related expenses historically. This resulted in an increase in both revenue and expenses, with no impact on net profit. Refer to note 2.1.1 for further information on the impact of the adoption of NZ IFRS 15 on the period ended 31 December 2018.

1.6 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

NZ IFRS 16 *Leases* replaces NZ IAS 17 and is effective for the period 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. Work has been undertaken to review all of the lease commitments of NZME to determine the impact NZ IFRS 16 will have on EBITDA. Currently we believe that the Group EBITDA will increase by between $16 million to $18 million when the standard is adopted as the leased assets are transferred to the balance sheet and interest and depreciation replaces the current operating lease expense.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2.0 GROUP PERFORMANCE

2.1 DISAGGREGATION OF REVENUE AND OTHER INCOME

	Print $'000	Radio & Experiential $'000	Digital & e-Commerce $'000	**Total $'000**
For the year ended 31 December 2018				
Advertising	114,159	107,613	58,932	**280,704**
Circulation & subscription	81,498	-	-	**81,498**
External printing & distribution	8,805	-	-	**8,805**
Other	7,137	5,689	1,022	**13,848**
Segment revenue from integrated media and entertainment activities	211,599	113,302	59,954	**384,855**
Shared services centre				**3,414**
Total revenues from external customers				**388,269**
Dividends				**143**
Rental income from sub-leases				**516**
Gain on disposal of property, plant and equipment				**30**
Other income				**689**
Finance income				**80**
Total finance and other income				**769**
Total revenue and other income				**389,038**

	Print $'000	Radio & Experiential $'000	Digital & e-Commerce $'000	**Total $'000**
For the year ended 31 December 2017				
Advertising	121,012	105,037	56,048	**282,097**
Circulation & subscription	83,263	-	-	**83,263**
External printing & distribution	9,571	-	-	**9,571**
Other	7,473	5,034	279	**12,786**
Segment revenue from integrated media and entertainment activities	221,319	110,071	56,327	**387,717**
Shared services centre				**2,971**
Total revenues from external customers				**390,688**
Dividends				**128**
Rental income from sub-leases				**632**
Gain on disposal of property, plant and equipment				**27**
Other income				**787**
Finance income				**139**
Total finance and other income				**926**
Total revenue and other income				**391,614**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2.1.1 Impact of NZ IFRS 15 adoption

As discussed in Note 1.5, the Group adopted NZ IFRS 15 *Revenue from Contracts with Customers* for the first time on 1 January 2018. Although the Group did not identify any significant changes in the timing of revenue recognition as a result of the adoption of NZ IFRS 15, following a detailed analysis of the agency vs principal rules and changes to the requirements relating to non-cash consideration (particularly as they relate to barter transactions), the Group identified instances where revenue is now recognised at the gross amount and not net of the related expense as it would previously have been reported. This results in an increase in both revenue and expenses, with no impact on net profit. The table below shows the amount by which each financial statement line item is affected in the current year by NZ IFRS 15 as compared to NZ IAS 18 and the related interpretations that were in effect before the change.

	NZ IAS 18 $'000	Adjustment $'000	**NZ IFRS 15 $'000**
For the year ended 31 December 2018			
Revenue	381,807	6,462	**388,269**
Finance and other income	769	-	**769**
Total revenue and other income	382,576	6,462	**389,038**
Expenses from operations before finance costs, depreciation, amortisation	(336,997)	(6,462)	**(343,459)**
Depreciation & amortisation	(24,555)	-	**(24,555)**
Finance costs	(4,636)	-	**(4,636)**
Profit before income tax expense	16,388	-	**16,388**

Accounting policies

Given that NZ IFRS 15 was adopted at 1 January 2018, the Group applies the following accounting policies in relation to revenue:

Advertising
The Group operates an integrated media and entertainment business and contracts with customers to provide advertising on multiple platforms consisting of a series of distinct services that are substantially the same. Advertising is often bundled to include print, radio and/or digital components. In most cases each component of the bundle is treated as a distinct performance obligation and the transaction price is allocated on a relative stand-alone selling price basis. Experiential campaigns are a type of bundling focused on providing an experience utilising a mix of traditional advertising mediums with bespoke elements like competitions, product sampling, street performances etc. These activities are highly integrated and inter-dependent and are therefore a single performance obligation with revenue recognised over the period of the campaign. These campaigns often include elements that are provided by external parties and the Group acts as the principal in those instances. These campaigns are typically run over a short period of time and are typically completed and billed for in the same reporting or billing period. Where the Group provides advertising for non-cash

consideration, revenue is recognised at the fair value of the consideration received, unless the Group cannot reasonably estimate the fair value of the non-cash consideration; in which case revenue is recognised by reference to the stand-alone selling price of the advertising promised to the customer. When advertising is exchanged for advertising, revenue is recognised on a gross basis as set out above.

Subscriptions
The Group enters into contracts with customers to deliver a specified publication on specified days. The performance obligation is satisfied, and revenue is recognised, when the publication is delivered.

Circulation
The Group enters into contracts with customers to deliver specified publications on specified days which the customer will on-sell to the public. The performance obligation is satisfied when the publication is delivered. Certain customers have a right to return any unsold publications which is treated as variable consideration. Customers are required to report unsold publications using an online system on a weekly basis. The Group therefore includes in the transaction price an estimate of the unsold publications using the most likely amount method based on the weekly reporting from customers to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

External printing and distribution
The Group enters into contracts with customers to print their publications and, in certain cases, distribute those publications on their behalf; including maintaining a distribution network. The printing, delivery and maintenance of a distribution network are distinct performance obligations. The performance obligation to print a publication is satisfied when those publications are printed. Similarly, the performance obligation to deliver a publication is satisfied when it is delivered. The performance obligation to maintain a distribution network is a service that is largely the same on a monthly basis and is satisfied, and revenue recognised, in equal increments over the billing period.

e-Commerce (GrabOne)
The Group acts as an agent for merchants selling their products or services to the public using the GrabOne platform. The Group does not control the product or service before it is transferred to the purchaser. Revenue is recognised in the amount of any fees or commissions the Group expects to be entitled to in exchange for arranging for the product or service to be provided by the merchant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Shared services centre
The Group provides back-office support services to customers. Revenue is therefore recognised in equal increments over the billing period.

Deferred revenue
When a customer pays for goods or services in advance, the Group recognises a Deferred Revenue liability which is reduced, and revenue recognised, as the Group satisfies each distinct performance obligation.

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

Incremental cost of obtaining a contract
The Group applies the practical expedient in NZ IFRS 15 to recognise the incremental cost of obtaining a contract (such as commission) when incurred if the amortisation period is one year or less. If material, the Group will recognise an asset for any incremental cost of obtaining a contract with a customer if the Group expects to recover those costs and the amortisation period is expected to be more than one year. Those costs will be amortised on a systematic basis that is consistent with the transfer of the good or service to which the asset relates.

Costs to fulfil a contract
If the costs incurred in fulfilling a contract with a customer are material and not within the scope of another standard, the Group recognises an asset from the costs incurred if all of the following criteria are met:

- The costs relate directly to the contract;
- The costs generate or enhance resources that the Group will use to satisfy the performance obligations in that contract; and
- The costs are expected to be recovered.

Those costs will be amortised on a systematic basis that is consistent with the transfer of the goods or services promised in that contract.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2.2 EXPENSES

	2018 $'000	2017 $'000
2.2.1 Expenses from operations before finance costs, depreciation, amortisation		
Employee benefits expense	**154,509**	157,350
Production and distribution expense	**72,997**	75,045
Selling and marketing expense	**52,728**	47,569
Rental and occupancy expense	**22,023**	21,986
Costs in relation to one-off projects	**1,632**	2,970
Redundancies and associated costs	**5,289**	4,314
Asset write-downs and business closures	**89**	275
Impairment of financial asset	**2,249**	-
Repairs and maintenance costs	**7,541**	6,973
Travel and entertainment costs	**4,007**	4,180
Other	**20,395**	12,177
Total expenses from operations before finance costs, depreciation, amortisation	**343,459**	332,839
2.2.2 Depreciation & amortisation		
Depreciation	**14,664**	15,559
Amortisation	**9,891**	9,387
Total depreciation & amortisation	**24,555**	24,946
2.2.3 Finance costs		
Interest and finance charges – other entities	**4,517**	4,391
Borrowing cost amortisation	**119**	106
Total finance costs	**4,636**	4,497
2.2.4 Fees paid to auditors		
Fees paid to the Group's auditors, PricewaterhouseCoopers, consist of:		
Audit or review of financial statements [A]	**383**	368
Other services		
Other assurance services [B]	**22**	51
Tax services [C]	**71**	109
Other services [D]	**26**	125
Total other services	**119**	285
Total fees paid to auditors	**502**	653

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

[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 and payroll assurance.

[C] Includes services relating to transactional advice, tax compliance services.

[D] Includes Treasury advisory services in 2018 and due diligence and advisory services relating to the proposed merger with Stuff Limited in 2017.

2.3 EARNINGS PER SHARE

Significant judgment: Under the Group's Total Incentive Plan ("TIP") as discussed in Note 4.3, Performance Rights were issued to certain participating employees that, for the 2017 TIP, will at the discretion of the Board either convert into fully paid ordinary shares or be settled in cash; and for the 2016 TIP, will convert into fully paid ordinary shares. Under the TIP, where Performance Rights are settled in shares, 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 either repurchase shares from the market or settle the rights in cash and not to issue new shares.

	2018 $'000	2017 $'000
Reconciliation of earnings used in calculating basic / diluted earnings per share ("EPS")		
Profit attributable to owners of the parent entity	**11,735**	20,885
Profit attributable to owners of the parent entity used in calculating EPS	**11,735**	20,885

	2018 Number	2017 Number
Weighted average number of shares		
Weighted average number of shares in the denominator in calculating basic EPS	**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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	2018 Cents	2017 Cents
Basic / diluted earnings per share		
Attributable to owners of the parent entity	**6.0**	10.7
Total basic / diluted earnings per share attributable to owners of the parent entity	**6.0**	10.7

Accounting policies

Basic earnings per share

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

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 2018 (2017: nil))

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2.4 SEGMENT INFORMATION

2.4.1 Determination and description of segments

Significant judgments: 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.

2.4.2 Segment revenues and results

The segment information provided to the Directors and Executive Team for the year ended 31 December 2018 is as follows:

	2018 $'000	2017 $'000
Revenues from external customers by channel		
Print	**211,599**	221,319
Radio & Experiential	**113,302**	110,071
Digital & e-Commerce	**59,954**	56,327
Segment revenue from integrated media and entertainment activities	**384,855**	387,717
Revenue from shared services centre	**3,414**	2,971
Total revenues from external customers	**388,269**	390,688
Dividend income	**143**	128
Rental income from sub-leases	**516**	632
Expenses from operations before finance costs, depreciation, amortisation and exceptional items	**(334,200)**	(325,280)
Total Segment Adjusted EBITDA [A]	**54,728**	66,168
Depreciation and amortisation	**(24,555)**	(24,946)
Interest income	**80**	139
Finance cost	**(4,636)**	(4,497)
Exceptional items		
Loss on disposal of properties [B]	**(59)**	(248)
Redundancies and associated costs [C]	**(5,289)**	(4,314)
Costs in relation to one off projects [D]	**(1,632)**	(2,970)
Impairment of financial asset [E]	**(2,249)**	-
Profit / (Loss) before tax from continuing operations	**16,388**	29,332

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

[A] Adjusted Earnings before Interest, Tax, Depreciation and Amortisation (Adjusted EBITDA) from continuing operations which excludes exceptional items, is a non-GAAP measure that represents the Group's total segment result which is regularly monitored by the Chief Operating Decision Maker. Exceptional items are those gains, losses, income and expense items that are not directly related to the primary business activities of the Group which are determined in accordance with the NZME Exceptional Items Recognition Framework adopted by the Audit & Risk Committee. Exceptional items include redundancies, impairment, one-off projects and the disposal of properties or businesses. These items are excluded from the segment result that is regularly reviewed by the Chief Operating Decision Maker.

[B] Loss on disposal of properties is the final adjustment on Greymouth land in 2018 and the loss on sale of land in Ouruhia and Greymouth in 2017.

[C] The redundancies and associated costs relate to the restructuring and integration of the New Zealand operations.

[D] 2018 costs relate to the provision for historical pay adjustments, residual costs in relation to the Stuff Limited merger appeal and one off project costs. 2017 costs primarily relate to external consultants assisting with the proposed merger with Stuff Limited and the continuing integration and co-location of NZME.

[E] Impairment costs are in relation to the investment in Ratebroker (see note 6.3.2).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3.0 OPERATING ASSETS & LIABILITIES

3.1 INTANGIBLE ASSETS

Significant judgment: 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**
As at 1 January 2017						
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**
For the year ended 31 December 2017						
Opening net book amount	70,783	10,870	146,976	42,068	59,079	**329,776**
Additions	-	1,932	-	90	-	**2,022**
Disposals	-	-	-	-	-	**-**
Amortisation	-	(6,434)	-	(2,953)	-	**(9,387)**
Transfers from capitalised work in progress	-	8,142	-	-	-	**8,142**
Net book value	70,783	14,510	146,976	39,205	59,079	**330,553**
As at 31 December 2017						
Cost	166,397	59,384	146,976	77,547	59,079	**509,383**
Accumulated amortisation and impair-ment	(95,614)	(44,874)	-	(38,342)	-	**(178,830)**
Net book value	70,783	14,510	146,976	39,205	59,079	**330,553**
For the year ended 31 December 2018						
Opening net book amount	70,783	14,510	146,976	39,205	59,079	**330,553**
Additions	-	2,103	-	-	-	**2,103**
Disposals	-	-	-	-	-	**-**
Amortisation	-	(6,935)	-	(2,956)	-	**(9,891)**
Transfers from capitalised work in progress	-	7,146	-	-	-	**7,146**
Net book value	70,783	16,824	146,976	36,249	59,079	**329,911**
As at 31 December 2018						
Cost	166,397	68,633	146,976	77,547	59,079	**518,632**
Accumulated amortisation and impair-ment	(95,614)	(51,809)	-	(41,298)	-	**(188,721)**
Net book value	70,783	16,824	146,976	36,249	59,079	**329,911**

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 (refer to note 3.1.1 below).

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 the 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 initially recognised at cost. The current New Zealand radio licences expire on 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 initially recognised at cost. The Directors believe the masthead brands have indefinite lives as there is no foreseeable limit over which they 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).

Brands
Brands are accounted for as identifiable assets and are initially recognised 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 judgment: As disclosed in note 2.4 the Directors have determined that 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 process.

A comprehensive impairment review was conducted at 31 December 2018. 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 impairment.

Key estimates and assumptions

	2018	**2018**	2017	2017
	Post-tax discount rate	Long-term growth rate	Post-tax discount rate	Long-term growth rate
Integrated Media and Entertainment CGU	9.5%	0.0%	9.5%	0.0%

Forecast prepared over the forecast period (2019 – 2023)

The forecasts used in impairment testing have been prepared by management for that specific purpose. Actual results may differ materially from those forecast or implied. The forecasts are not, and should not be read as, a forecast of, or guidance as to, the future financial performance and earnings of the Group.

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 management expectations for this channel.
- Digital revenues, excluding sums forecasted to be received from the Digital Classifieds, are forecast to grow in line with management expectations for this channel.
- Radio and experiential revenues are forecast to grow by between 3.0% and 5.1% each year.
- Revenue from Digital Classifieds launched in 2018 is expected to increase over time. The average revenue forecast for the purposes of impairment assessment is $6.5 million per year over the forecast period.
- Expenses are forecast to reduce by between 2.9% and 1.5% each year.

Based on the above assumptions the directors have not identified any impairment. The recoverable amount of the CGU exceeds its carrying amount by $16 million.

3.1.2 Impact of reasonably possible change in key assumptions

The forecasts used in impairment testing require assumptions and judgments about the future, such as discount rates, long term growth rates, forecasted revenues, to which the model is sensitive and which are inherently uncertain.

Management have identified the following reasonably possible changes to key assumptions which could result in impairment:

- Radio revenues grow at a lower rate than expected.
- Digital Classifieds revenues grow at a lower rate than expected.
- Cost reduction is not at the forecasted level.

The following changes in the assumptions would be required to cause the recoverable amount of CGU to be equal to its carrying amount.

- A reduction in radio revenue forecasts of 0.4% to a range between 2.6% to 4.7%.
- A reduction in the average Digital Classifieds revenue forecast to $4.6m per year over the five year forecast period.
- Forecast cost reductions are smaller by a total of $7.5 million over the five year forecast period.

Note: the above disclosure assumes that each of the changes is in isolation and assumes that all other factors are consistent.

The Group compares the net book value of assets with the market capitalisation value at each balance date. The share price at 31 December 2018 was $0.50 equating to a market capitalisation of $98.0 million. This market value excludes any control premium and may not reflect the value of 100% of NZME's net assets. The book value of NZME's net assets at 31 December 2018 was $286.6 million ($1.46 per share). Management considered the reasons for this difference, whether all relevant factors had been allowed for in their value in use model, and engaged a third party expert to assist in validating their assessment of the recoverable amount.

Accounting policy

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment and at the end of each reporting period if 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3.2 PROPERTY, PLANT AND EQUIPMENT

	Freehold land [A] $'000	Buildings [A] $'000	Plant and equipment $'000	**Total $'000**
As at 1 January 2017				
Cost or fair value	1,381	14,562	329,569	**345,512**
Accumulated depreciation and impairment	-	(2,217)	(274,779)	**(276,996)**
Net book amount	1,381	12,345	54,790	**68,516**
Year ended 31 December 2017				
Opening net book amount	1,381	12,345	54,790	**68,516**
Additions	-	273	3,076	**3,349**
Disposals	(216)	(8)	(60)	**(284)**
Depreciation	-	(2,302)	(13,257)	**(15,559)**
Transfers from capitalised work in progress	-	(29)	38	**9**
Net book amount	1,165	10,279	44,587	**56,031**
As at 31 December 2017				
Cost or fair value	1,165	14,764	330,021	**345,950**
Accumulated depreciation and impairment	-	(4,485)	(285,434)	**(289,919)**
Net book amount	1,165	10,279	44,587	**56,031**
Year ended 31 December 2018				
Opening net book amount	1,165	10,279	44,587	**56,031**
Additions	-	23	626	**649**
Disposals	-	(89)	-	**(89)**
Depreciation	-	(1,780)	(12,884)	**(14,664)**
Transfers from capitalised work in progress	-	10	5,208	**5,218**
Net book amount	1,165	8,443	37,537	**47,145**
As at 31 December 2018				
Cost or fair value	1,165	14,697	335,602	**351,464**
Accumulated depreciation and impairment	-	(6,254)	(298,065)	**(304,319)**
Net book amount	1,165	8,443	37,537	**47,145**

[A] Freehold land and buildings include leasehold improvements with a net book value of $8,311,993 (2017: $9,901,993) carried at cost. All other 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 $442,270 (2017: $442,270) and the net book value of buildings would have been $327,038 (2017: $336,973). The last revaluation was performed for the year ended 31 December 2015.

3.2.1 Capital work in progress

	2018 $'000	2017 $'000
As at 1 January	**8,694**	7,160
Additions	**12,428**	9,685
Transfers to intangible assets	**(7,146)**	(8,142)
Transfers to property plant and equipment	**(5,218)**	(9)
As at 31 December	**8,758**	8,694

Capital work in progress, which historically was included under property, plant and equipment, is transferred to the relevant asset category once the project is completed. Capitalised work in progress is not depreciated or amortised prior to being transferred to the relevant asset category.

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 50 years
• Leasehold improvements	• 2.5 to 50 years
• Motor vehicles	• 5 to 10 years
• Plant & equipment	• 1.5 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 (excluding leasehold improvements) are recorded at fair value, based on periodic valuations by external independent valuers, less subsequent depreciation for buildings. Independent valuations are performed with sufficient regularity to ensure that the carrying value of assets is materially consistent with their fair value. 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, furniture and fittings and motor vehicles are 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

	2018 $'000	2017 $'000
Trade receivables	**48,153**	44,811
Provision for impairment	**(766)**	(592)
	47,387	44,219
Amounts due from related companies (note 7.1.2)	**940**	1,028
Other receivables and prepayments	**10,367**	10,076
Total current trade and other receivables	**58,694**	55,323
Movements in the provision for impairment are as follows:		
Balance at beginning of the year	**592**	1,042
Provision for impairment expense	**566**	430
Receivables written off	**(392)**	(880)
Provision for impairment	**766**	592

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. 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 and 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 Group 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

	2018 $'000	2017 $'000
Current payables		
Lease liability [A]	**833**	833
Amounts due to related companies (note 7.1.2)	**359**	1,194
Employee entitlements	**7,732**	7,211
Trade payables and accruals	**43,112**	47,656
Total current trade and other payables	**52,036**	56,894
Non-current payable		
Lease liability [A]	**13,665**	13,565
Total non-current trade and other payables	**13,665**	13,565

[A] Lease liability includes lease incentives received on operating leases.

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
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

a) 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.

b) 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 to be paid when they are settled.

Refer to note 4.3 for disclosures relating to share based payments and note 7.1.1 for key management compensation.

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:

	2018 $'000	2017 $'000
As at 31 December		
Total assets	**462,777**	468,085
Less intangible assets	**(329,911)**	(330,553)
Less total liabilities	**(176,141)**	(179,053)
Net tangible assets	**(43,275)**	(41,521)
Number of shares issued (in thousands)	**196,011**	196,011
Net tangible assets per share (in $)	**($0.22)**	($0.21)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4.0 CAPITAL MANAGEMENT

4.1 SHARE CAPITAL

	2018 Number	2017 Number	2018 $'000	2017 $'000
Authorised, issued and paid up share capital				
Balance at the beginning of the year	**196,011**	196,011	**360,363**	360,363
Balance at the end of the period	**196,011**	196,011	**360,363**	360,363

Accounting policy

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

	2018 $'000	2017 $'000
Share based payments reserve		
Balance at the beginning of the year	**1,369**	144
Share based payment expense	**581**	1,225
Balance at end of the year	**1,950**	1,369
Asset revaluation reserve		
Balance at beginning of the year	**722**	722
Balance at end of year	**722**	722
Foreign currency translation reserve		
Balance at beginning of the year	**294**	309
Net exchange difference on translation of foreign operations	**32**	(15)
Balance at end of year	**326**	294
Transactions with non-controlling interests reserve		
Balance at beginning of the year	**-**	(6,373)
Transfer to retained earnings	**-**	6,373
Balance at end of year	**-**	-
Total reserves	**2,998**	2,385

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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. 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
The 2017 movement was the transfer to another category of equity as there were no non-controlling interests in the Company at 31 December 2017.

4.3 SHARE BASED PAYMENTS

	2018		2017	
	Average price per right (Cents)	**Number of rights**	Average price per right (Cents)	Number of rights
As at 1 January	**0.58**	**2,647,644**	0.58	745,301
Granted (2016 TIP) [A]	**-**	**-**	0.58	70,236
Granted (2017 TIP) [B]	**0.90**	**(366,508)**	0.90	1,933,927
Forfeited [C]	**-**	**-**	0.58	(101,820)
Exercised	**-**	**-**	-	-
As at 31 December	**0.80**	**2,281,136**	0.81	2,647,644

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

A Included in the number of rights granted for the year ended 31 December 2017 are 70,236 rights granted at a price of $0.58 per right relating to the 2016 TIP based on the final number of rights approved by the Board in March 2017. Under the 2016 Plan, the participants will be entitled to additional shares (not reflected in the rights above) when the rights are exercised (on 31 December 2019) for any dividends foregone during the period 1 January 2017 to 31 December 2019. For dividends declared during the period 1 January 2018 to 31 December 2018, this will result in an additional 81,568 shares being issued to the participants (2017: 96,862).

B The number of shares granted in 2017 in respect of the 2017 TIP was an estimate based on information available at the time the Financial Statements were prepared. In 2018 the actual shares to be granted were determined with the sum being lower than originally calculated.

C Two participants in the 2016 TIP departed in 2017 prior to the completion of the Service Period and forfeited their rights under the 2016 TIP.

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

			Performance rights	
		Value of right at grant date (Cents)	**2018 $'000**	2017 $'000
Grant date	**Vesting date**			
20 December 2016	31 Dec 2017	0.58	**414**	414
25 September 2017	31 Dec 2018	0.90	**1,411**	1,741
As at 31 December			**1,825**	2,155
Share based payment expense recognised in the current period (refer to note 4.2)			**581**	1,225

	2018	2017
Weighted average remaining time until rights outstanding at the end of the period vest	12 months	12 months
Weighted average remaining time until rights outstanding at the end of the period automatically converts to ordinary shares	21 months	34 months

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4.3.1 Background

Total incentive plan ("TIP")
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 after the date that the full year financial performance is announced to the market.

4.3.2 2018 TIP

No TIP has been offered for the 2018 Financial Year.

4.3.3 2017 TIP

Performance measures

- Financial performance conditions (50%): 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%

- Business Unit Goals (25%):This portion is determined based on actual achievement against Business Unit ("BU") Goals on the following scale:

% of BU Goal achieved	% of target opportunity awarded
< 95%	25%
> 95% to 100%	Pro-rata vesting between 25% and 100%
> 100% to 110%	Pro-rata vesting between 100% and 150%

- Individual performance conditions (25%): This portion is determined against individual performance conditions, as determined for each participant. The TIP award is earned if all of the individual performance conditions have been achieved, although the Board has discretion to award less than a 100% of the target for partial performance and more than a 100% of the target for exceptional performance.

Awards under the TIP are granted to participants following the assessment of performance. To the extent that 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 2017 awards is a twelve month period which commenced on 1 January 2017. Subject to remaining employed by the Company for a further one year period following the performance period ("service period"), rights will vest. The vested rights cannot be exercised 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. At the discretion of the Board, validly exercised rights may be satisfied in cash, rather than in shares. Participants are not entitled to receive any dividends for the rights they hold, but the Board may, at its sole discretion, allocate shares or make a cash payment to participants equal to the value of dividends that were payable whilst holding the unvested and / or vested rights. 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 25 September 2017, 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 for the first 5 trading days of the Performance Period.

Model inputs

The following is a summary of the key inputs in calculating the share-based payment expense under the 2017 TIP:

• Performance Period	1 January 2017 to 31 December 2017
• Service Period	1 January 2018 to 31 December 2018
• Vesting Period (being the Performance Period and the Service Period)	1 January 2017 to 31 December 2018
• Deferral Period	1 January 2019 to 31 December 2020
• Share price at grant date	90 cents
• VWAP	59.4 cents

It is assumed that all participating employees will remain employed with the Company until the end of the vesting period.

4.3.4 2016 TIP

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 that 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 when rights are exercised equal to the dividends paid on vested rights over the vesting period and the deferral 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 for the first 5 trading days of the performance period.

Model inputs

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

• 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

Total incentive plan (TIP)

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 performance period and the service 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 over the first 5 trading days of the performance period.

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 21 February 2018, the Board of Directors declared a fully imputed final dividend for the year ended 31 December 2017 of 6 cents per share, paid on 3 May 2018 to registered shareholders as at 18 April 2018 (total sum paid $11,761,000). The Board of Directors also declared a supplementary dividend of 1.06 cents per share, paid on 3 May 2018 to registered shareholders as at 18 April 2018, to those shareholders who are not tax residents in New Zealand and who hold less than 10% of the shares in the Company (total sum paid $1,404,000). On 22 August 2018, the Board of Directors declared a fully imputed interim dividend of 2.0 cents per share, paid on 26 October 2018 to registered shareholders as at 16 October 2018 (total sum paid $3,920,000). The Board of Directors also declared a supplementary dividend of 0.3529 cents per share, paid on 26 October 2018 to registered shareholders as at 16 October 2018, to those shareholders who are not tax residents in New Zealand and who hold less than 10% of the shares in the Company (total sum paid $460,000). 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).

4.4.1 Dividends declared after balance date

On 18 February 2019, the Board of Directors confirmed that NZME Ltd would not be declaring a final dividend for the 2018 financial year.

4.4.3 Franking and imputation credits

	2018 $'000	2017 $'000
Imputation credits available for subsequent reporting periods based on the New Zealand 28% tax rate for the Group	**NZ$ 8,259**	NZ$ 8,519
Franking credits available to the Company for subsequent reporting periods based on the Australian 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 have AU$10,828,676 (2017:AU$10,828,676) available that might become available to the Company in future periods.

4.5 Interest bearing liabilities

	2018 $'000	2017 $'000
Non-current interest bearing liabilities		
Bank loans – secured	**110,500**	100,000
Deduct:		
Capitalised borrowing costs	**(508)**	(212)
Total non-current interest bearing liabilities	**109,992**	99,788
Net debt		
Non-current interest bearing liabilities	**110,500**	100,000
Capitalised borrowing costs	**(508)**	(212)
Cash and cash equivalents	**(11,717)**	(9,570)
Total debt less cash and cash equivalents	**98,275**	90,218

The change in the bank loans - secured balance for the year ended 31 December 2018 of $10,500,000 is due to proceeds from borrowings / repayments of borrowings as reflected in the consolidated statement of cash flows. The change in capitalised borrowing costs of $507,760 for the year ended 31 December 2018 is due to the new costs incurred in relation to the new loan facility and the amortisation of those capitalised borrowing costs over the period of the loan.

The Group is funded from a combination of its own cash reserves and NZ$150 million bilateral bank loan facility, which NZME refinanced on 21 November 2018, of which $110.5 million (2017: $100 million) is drawn and $39.5 million (2017: $60 million) is undrawn as at 31 December 2018. The new facility limit will step down by $10 million annually from 1 January 2020. This facility expires on 1 January 2022.

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.

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.

	2018 $'000	2017 $'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	**16,332**	16,389
Later than one year but not later than five years	**55,014**	48,973
Later than five years	**55,336**	62,185
Commitments not recognised in the financial statements	**126,682**	127,547

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4.7 CASH FLOW INFORMATION

	2018 $'000	2017 $'000
Reconciliation of cash		
Cash at end of the year, as shown in the statements of cash flows, comprises:		
Cash and cash equivalents	**11,717**	9,570
Reconciliation of net cash inflows (outflows) from operating activities to profit / (loss) for the year:		
Profit / (loss) for the year	**11,572**	20,885
Depreciation and amortisation expense	**24,555**	24,946
Borrowing cost amortisation	**119**	106
Non-cash lease transactions	**99**	142
Net loss on sale of non-current assets	**59**	216
Change in current / deferred tax payable	**(9,263)**	2,837
Revaluation / impairment of financial assets	**2,249**	-
Share based payment expense	**581**	1,225
Changes in assets and liabilities net of effect of acquisitions:		
Trade and other receivables	**(2,801)**	(187)
Inventories	**61**	299
Prepayments	**(571)**	(1,505)
Trade and other payables and employee benefits	**(4,818)**	(9,509)
Net cash inflows / (outflows) from operating activities	**21,842**	39,455

Accounting policy

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 manage capital requirements.

The Group's activities expose it to a variety of financial risks: market risk (including 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 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 interest rate risk and credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity. Due to the Group's limited operations in foreign jurisdictions, the Group does not have a significant foreign exchange exposure.

4.8.2 Market risk

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 is fixed for 30 days on a rolling basis.

Based on the outstanding net floating debt at 31 December 2018, 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 (2017: $1.0 million lower/higher).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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, NZME's credit control department 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:

			Past due			
	Current $'000	Less than one month $'000	**One to three months $'000**	**Three to six months $'000**	**Over six months $'000**	Total $'000
2018						
Expected loss rate	0.0%	0.7%	**4.6%**	**11.9%**	**42.0%**	
Trade receivables	31,168	11,802	**2,493**	**1,868**	**822**	48,153
Impaired receivables		(84)	**(115)**	**(222)**	**(345)**	(766)
	31,168	11,718	**2,378**	**1,646**	**477**	47,387

			Past due			
	Current $'000	Less than one month $'000	**One to three months $'000**	**Three to six months $'000**	**Over six months $'000**	Total $'000
2017						
Expected loss rate	0.0%	0.6%	**4.6%**	**13.7%**	**37.2%**	
Trade receivables	30,308	10,601	**1,929**	**1,258**	**715**	44,811
Impaired receivables		(65)	**(89)**	**(172)**	**(266)**	(592)
	30,308	10,536	**1,840**	**1,086**	**449**	44,219

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 2018, trade receivables of $4,501,000 (2017: $3,375,000) were past due but not impaired.

The maximum exposure to credit risk at 31 December 2018 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 2018				
Trade payables and accruals	43,112	-	-	-
Bank loans	4,193	4,193	114,693	-
Gross liability	47,305	4,193	114,693	-
Less: interest	(4,193)	(4,193)	(4,193)	
Total financial liabilities	43,112	-	110,500	-
31 December 2017				
Trade payables and accruals	47,656	-	-	-
Bank loans	4,022	4,022	104,022	-
Gross liability	51,678	4,022	104,022	-
Less: interest	(4,022)	(4,022)	(4,022)	
Total financial liabilities	47,656	-	100,000	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 (excluding leasehold improvements).

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

	2018 $'000	2017 $'000
Recurring fair value measurements (Level 3)		
Financial assets		
There are no financial assets carried at fair value. Other financial assets of $3,787,765 (2017: $5,988,765) are held at cost and therefore have been excluded from this table.		
Non-financial assets		
Freehold land and buildings		
Freehold land	**1,165**	1,165
Buildings (excluding leasehold improvements)	**131**	377
Total non-financial assets	**1,296**	1,542

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 2018 or 31 December 2017 (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 2018, the borrowing rates were determined to be between 3.3% and 4.5% (2017: between 3.3% and 4%), 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.

The Group obtains independent valuations for its freehold land and buildings (classified as property, plant and equipment in note 3.2), less subsequent depreciation for buildings, with sufficient regularity to ensure that the carrying value of the assets is materially consistent with their fair value. All resulting fair value estimates for properties are included as Level 3.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5.0 TAXATION

5.1 INCOME TAX

	2018 $'000	2017 $'000
Reported income tax expense / (benefit) comprises:		
Current tax expense / (benefit)	**6,318**	10,529
Deferred tax expense / (benefit)	**(791)**	(1,972)
(Over) / under provision in prior years	**(711)**	(110)
Income tax expense	**4,816**	8,447
Income tax is attributable to:		
Profit from continuing operations	**4,816**	8,447
Total income tax expense	**4,816**	8,447
Income tax expense differs from the amount prima facie payable as follows:		
Profit from operations before tax	**16,388**	29,332
Prima facie income tax at 28%	**4,589**	8,213
Non assessable asset sales and exempt distribution receipts	**(35)**	(27)
Non-deductible expenses	**980**	675
Differences in international tax rates	**(7)**	(8)
Other	**-**	(296)
(Over) / under provision in prior years	**(711)**	(110)
Income tax expense	**4,816**	8,447

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5.2 DEFERRED TAX

Deferred tax assets and liabilities are attributable to:

	Balance $'000	Recognised in income $'000	Recognised in equity $'000	Other movements $'000	**Balance $'000**
2017					
Tax credits	3	-	-	-	**3**
Employee benefits	1,433	765	-	-	**2,198**
Doubtful debts	291	(126)	-	-	**165**
Accruals/restructuring	1,102	(560)	-	-	**542**
Intangible assets	(529)	37	-	-	**(492)**
Property, plant and equipment	(5,370)	1,720	-	-	**(3,650)**
Other	(141)	136	-	-	**(5)**
	(3,211)	1,972	-	-	**(1,239)**
2018					
Tax credits	3	-	-	-	**3**
Employee benefits	2,198	(1,164)	-	-	**1,034**
Doubtful debts	165	49	-	-	**214**
Accruals/restructuring	542	372	-	-	**914**
Intangible assets	(492)	37	-	-	**(455)**
Property, plant and equipment	(3,650)	1,497	-	-	**(2,153)**
Other	(5)	-	-	-	**(5)**
	(1,239)	791	-	-	**(448)**

There are unrecognised tax losses of $1,835,141 (AUD1,744,812) (2017: $1,917,077 (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 was not offset against the deferred tax liabilities of the rest of the Group because they are levied by a different tax authority.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6.0 GROUP STRUCTURE AND INVESTMENTS IN OTHER ENTITIES

6.1 CONTROLLED ENTITIES

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. There were no changes in control during the year ended 31 December 2018.

	2018 Ownership interest	2017 Ownership interest
Name of entity		
Adhub Limited [C]	**N/A**	100%
ESKY Limited [C]	**N/A**	100%
GrabOne Limited	**100%**	100%
Idea HQ Limited [C]	**N/A**	100%
Mt Maunganui Publishing Co Limited [C]	**N/A**	100%
NZME 2014 Limited [C]	**N/A**	100%
NZME Australia Pty Limited [A]	**100%**	100%
NZME Digital Limited [C]	**N/A**	100%
NZME Educational Media Limited	**100%**	100%
NZME Finance Limited [C]	**N/A**	100%
NZME Holdings Limited	**100%**	100%
NZME Investments Limited	**100%**	100%
NZME Online Limited [C]	**N/A**	100%
NZME Print Limited	**100%**	100%
NZME Publishing Limited	**100%**	100%
NZME Radio Investments Limited	**100%**	100%
NZME Radio Limited [B]	**100%**	100%
NZME Specialist Limited	**100%**	100%
NZME Trading Limited [C]	**N/A**	100%
Regional Publishers Limited [C]	**N/A**	100%
Sell Me Free Limited [C]	**N/A**	100%
Sella Limited [C]	**N/A**	100%
Stanley Newcomb & Co Limited [C]	**N/A**	100%
The Hive Online Limited	**100%**	100%
New Zealand Radio Network Limited	**100%**	100%
The Radio Bureau Limited	**100%**	100%
Trade Debts Collecting Co Limited [C]	**N/A**	100%
W & H Interactive Limited [C]	**N/A**	100%
OneRoof Limited [D]	**80%**	N/A

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

[A] Incorporated in, and operates in, Australia.

[B] One “Kiwi Share” held by the Minister of Finance. The rights and obligations are set out in the NZME Radio constitution.

[C] Effective 31 May 2018, these entities were amalgamated into NZME Specialist Limited.

[D] OneRoof Limited was incorporated on 20 March 2018. On 21 August, the Group transferred 20% of the share capital in OneRoof Limited to Hougarden.com Limited as consideration for the final payment of $1.1 million for the acquisition of the platform on which the OneRoof website and related apps are built. The acquisition of the platform has been treated as an asset acquisition and the subsequent issue of shares has been accounted for as an equity settled share-based payment transaction valued at the fair value of the asset received.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6.2 INTERESTS IN OTHER ENTITIES

6.2.1 Associates, joint ventures and joint operations

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

	2018 Ownership interest	2017 Ownership interest
Name of entity		
Chinese New Zealand Herald Limited [A]	**50%**	50%
Eveve New Zealand Limited [A]	**40%**	40%
KPEX Limited [A]	**25%**	25%
New Zealand Press Association Limited [A]	**38.82%**	38.82%
Restaurant Hub Limited [A]	**40%**	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 [D]	**50%**	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 6.3.2).

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.

D In January 2018, the Group acquired an additional 30% of the shareholding in Ratebroker Limited from existing shareholders. The Group has joint control of Ratebroker Limited and classifies it as a joint venture. (See note 6.3.2)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Accounting policies

Associates
Associates are all entities over which the Group has significant influence but not control or joint control. Where the impact of the equity method of accounting is material, interests in associates are accounted for in the consolidated financial statements using the equity method (see below), 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 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.

Where the impact of the equity method of accounting is material, 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 are immaterial, investments are carried at cost.

6.3.2 Other financial assets

	2018 $'000	2017 $'000
Shares in other corporations	**3,788**	5,988
Total other financial assets	**3,788**	**5,988**

Shares in other corporations consist of investments in entities that are not consolidated or equity accounted (see also note 6.2.1). These investments are carried at cost.

NZME has written off its investment in Ratebroker Limited.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7.0 OTHER NOTES

7.1 RELATED PARTIES

7.1.1 Key management compensation

	2018 $'000	2017 $'000
Total remuneration for Directors and other key management personnel:		
Short term benefits	**5,429**	5,935
Termination benefits	**499**	364
Dividends (relating to shares held in the Company during the year)	**70**	33
Share-based payments	**581**	1,225
	6,579	7,557

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.

7.1.2 Other transactions with related parties

During the year, the Group purchased print services worth $2,363,784 (2017: $3,385,000) from Beacon Printing & Publishing Company Limited, a company in which the Group holds an interest in and paid $300,695 (2017: nil) to Beacon Printing & Publishing Company Limited for redundancies as per the print agreement between the parties.

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 $2,571,450 (2017: $2,768,773) and paid commission of $306,342 (2017: $412,931).

The Group has commitments to provide future services (such as house advertising, occupancy space at NZME offices, business as usual finance and human resources support) to certain joint ventures and associates. During the year such services were provided to Eveve, valued at $27,992 (2017:$66,879), Restaurant Hub, valued at $260,040 (2017:$281,923) and Ratebroker, valued at $nil (2017: $1,174,394). The outstanding balances for future services are included in the table below, along with other receivables and payables.

	2018 Receivables $'000	2017 Receivables $'000	**2018 Payables $'000**	2017 Payables $'000
Balances with related parties				
KPEX Limited	**940**	1,028	**127**	148
Chinese New Zealand Herald Limited	**-**	-	**19**	43
Eveve New Zealand Limited	**-**	-	**124**	28
Restaurant Hub Limited	**-**	-	**89**	449
Ratebroker Limited	**-**	-	**-**	526
Total related party receivables and payables	**940**	1,028	**359**	1,194

7.2 CONTINGENT LIABILITIES

7.2.1 Claims

The Group did not have any significant contingent liabilities as at 31 December 2018.

7.3 SUBSEQUENT EVENTS

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

Independent auditor's report

To the shareholders of NZME Limited

We have audited the consolidated financial statements which comprise:

- the consolidated balance sheet as at 31 December 2018;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include the principal accounting policies.

Our opinion

In our opinion, the accompanying 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 2018, 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 taxation advisory services, advisory services in connection with treasury policy, and other assurance services including circulation and payroll assurance services. The provision of these other services has not impaired our independence as auditor of the Group.

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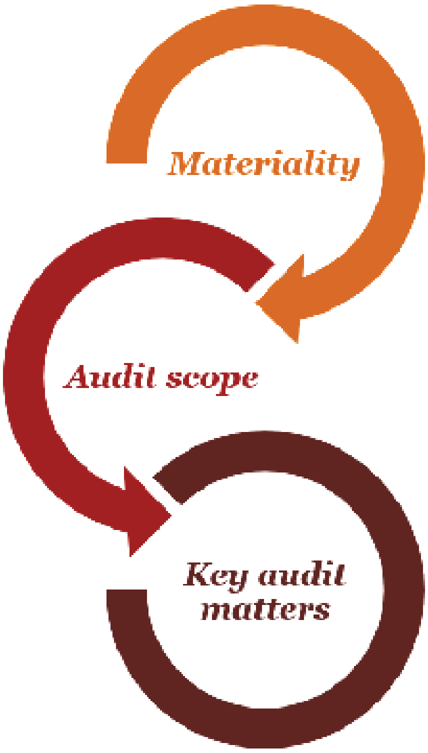
Our audit approach

Overview



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

Overall Group materiality: $1,277,000, which represents 5% of profit before tax, excluding exceptional expense items incurred during the year.

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 exceptional expenses (refer to note 2.4.2) to reduce volatility and to reflect the underlying performance of the Group.

We have determined that there is one key audit matter being the 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.

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. The key audit matter below was 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 this matter.

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 ($70.8 million), masthead brands ($147.0 million), and brands ($59.1 million) have a combined carrying value of $276.9 million at 31 December 2018 and represent 60% of the total assets of the Group. In completing the annual impairment assessment, the recoverable amount of the CGU, being the higher of its value in use and its fair value less costs of disposal ('FVLCD'), is calculated and compared with the relevant net assets of the Group. Management utilised a value in use model reflecting the strategic direction of NZME to determine the value of the business using discounted cash flows. Management considered the reasons for the lower recoverable amount if it were determined on a FVLCD basis, as indicated by the market capitalisation of NZME at balance date and engaged a third party expert to assist in validating their assessment of the recoverable amount. The impairment assessment is complex in nature and includes key estimates and assumptions made by management, particularly in the following areas: • The assessment that the NZME business constitutes one CGU. • The expected future trading results of the business which are based on budget for 2019 and the forecasts for the following four years which have been approved by the Board of Directors. • The weighted average cost of capital of 9.5% used as the discount rate in the model. • The application of a 0% long term growth rate for the purposes of impairment testing. • Considering sensitivity by determining other reasonably possible scenarios and assessing the impact on the valuation of these scenarios. The impairment assessment completed by management calculated the recoverable amount of the business as higher than the carrying value of applicable net assets and no impairment was identified. In their sensitivity analysis management identified that there were assumptions for	We gained an understanding of the strategic objectives of the business to assess the appropriateness of using a value in use model. We also gained an understanding of how the business is managed and how the results are reported to management and the Directors in order to understand management's determination that NZME constitutes one CGU. We gained an understanding of the business process and controls applied by management in their impairment assessment. We considered the factors identified by management as contributing to the difference between the market capitalisation of the Group and the carrying value of net assets, and we reviewed the third party expert's report obtained by management to assist in validating key judgements. We tested the accuracy of the calculations in the value in use model by reperforming the calculation of the recoverable amount of the business, based on the same estimates and assumptions used by management. We then agreed the relevant net assets of the Group to the audited carrying values. We also assessed key estimates and assumptions made by management. Our audit procedures included the following: • 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 for each channel, forecast expenses and the terminal growth rate. This was done with reference to the historical performance of the Group, key initiatives being undertaken and comparison to third party industry forecasts and available broker reports. • We engaged an auditor's expert to recalculate a reasonable range for the weighted average cost of capital used as the discount rate in the model and determined that the discount rate used by management was consistent with this. • We considered publicly available market information from recent valuations of similar businesses to compare the recoverable amount determined by management, using discounted cash flow methodology, to the amount which might have been determined using a multiples approach. • We considered a range of reasonably possible alternative scenarios, including those identified by management. For each scenario we tested the updated model for the accuracy of calculations affected by the changes in assumptions including the impact of those changes on the recoverable amount and comparison to the relevant net asset value of the

Key audit matter	How our audit addressed the key audit matter
which a reasonably possible change would cause the carrying amount to exceed the recoverable amount. These assumptions, together with the changes that would be required in order for the recoverable amount to be equal to the carrying amount, have been disclosed in note 3.1.2.	Group. • We developed an independent point estimate and derived a range of acceptable outcomes, by considering the level of estimation uncertainty inherent in the New Zealand market, to evaluate management's value in use assessment. We reviewed the disclosures in the financial statements to ensure that they are compliant with the requirements of the relevant accounting standards and we have no matters to report.

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 consolidated financial statements is located at the External Reporting Board's website at:

https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/

This description forms part of our auditor's report.

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 Jonathan Skilton.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
18 February 2019

Auckland

Spending on growth initiatives continues to impact earnings ahead of revenue generation but these investments offer very exciting prospects as we progress our strategy.

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AUDITORS

PricewaterhouseCoopers

PRINCIPAL BANKERS

Westpac

PRINCIPAL SOLICITORS

Chapman Tripp

SHARE REGISTRY

Link Market Services

SHARE REGISTRY CONTACT DETAILS

Inquiries about the Shares may be made to the Registrar:

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