NZ ME.

NEW ZEALAND
MEDIA AND
ENTERTAINMENT

Consolidated Financial Statements

NZME Limited

for the year ended 31 December 2017

CONTENTS

CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2017

*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 9 to 10.

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 2017, 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 2017 and the results of the Group's operations and cash flows for the year then ended.

The consolidated financial statements for the Group as presented on pages 2 to 48 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: 21 February 2018

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2017

	NOTE	**2017 $'000**	2016 $'000
CONTINUING OPERATIONS			
Revenue	2.1	**390,688**	407,856
Finance and other income	2.1	**926**	2,340
Total revenue and other income	2.1	**391,614**	410,196
Expenses from operations before finance costs, depreciation, amortisation	2.2.1	**(332,839)**	(363,553)
Depreciation & amortisation	2.2.2	**(24,946)**	(23,845)
Finance costs	2.2.3	**(4,497)**	(9,300)
Profit / (loss) from continuing operations before income tax expense		**29,332**	(13,498)
Income tax expense	5.1	**(8,447)**	(64,050)
Profit / (loss) from continuing operations for the year		**20,885**	(50,552)
DISCONTINUED OPERATIONS			
Profit / (loss) after tax from discontinued operations		**-**	125,095
Profit / (loss) for the year		**20,885**	74,543
PROFIT / (LOSS) FOR THE YEAR IS ATTRIBUTABLE TO:			
Owners of the Company		**20,885**	60,618
Non-controlling interests		**-**	13,925
Profit / (loss) for the year		**20,885**	74,543

	NOTE	**CENTS**	CENTS
Earnings per share from continuing operations attributable to the ordinary shareholders of the company			
Basic / diluted earnings per share	2.3	**10.7**	(28.0)
Earnings per share from profit for the year (continuing and discontinued operations) attributable to the ordinary shareholders of the Company			
Basic / diluted earnings per share	2.3	**10.7**	30.9

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 2017

	NOTE	**2017 $'000**	2016 $'000
Profit for the year		**20,885**	74,543
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations	4.2	**(15)**	44,846
Items that will not be reclassified to profit or loss			
Exchange and other differences applicable to non-controlling interests		**-**	(14,683)
Other comprehensive income, net of tax		**(15)**	30,163
Total comprehensive income		**20,870**	104,706
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the Company		**20,870**	105,464
Non-controlling interests		**-**	(758)
		20,870	104,706
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO OWNERS OF THE COMPANY:			
Continuing operations		**20,870**	(10,038)
Discontinued operations		**-**	115,502
		20,870	105,464

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

CONSOLIDATED BALANCE SHEET
as at 31 December 2017

	NOTE	**2017 $'000**	2016 $'000
CURRENT ASSETS			
Cash and cash equivalents	4.7	**9,570**	16,242
Trade and other receivables	3.3	**55,323**	53,631
Inventories		**1,926**	2,226
Total current assets		**66,819**	72,099
NON-CURRENT ASSETS			
Intangible assets	3.1	**330,553**	329,776
Property, plant and equipment	3.2	**64,725**	75,677
Other financial assets	6.3.2	**5,988**	5,988
Total non-current assets		**401,266**	411,441
Total assets		**468,085**	483,540
CURRENT LIABILITIES			
Trade and other payables	3.4	**56,894**	66,379
Current tax provision		**7,567**	2,800
Total current liabilities		**64,461**	69,179
NON-CURRENT LIABILITIES			
Trade and other payables	3.4	**13,565**	13,423
Interest bearing liabilities	4.5	**99,788**	112,168
Deferred tax liabilities	5.2	**1,239**	3,211
Total non-current liabilities		**114,592**	128,802
Total liabilities		**179,053**	197,981
Net assets		**289,032**	285,559
EQUITY			
Share capital	4.1	**360,363**	360,363
Reserves	4.2	**2,385**	(5,198)
Retained earnings		**(73,716)**	(69,606)
Total equity		**289,032**	285,559

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 2017

	NOTE	SHARE CAPITAL $'000	RESERVES $'000	RETAINED EARNINGS $'000	**TOTAL $'000**	NON-CONTROLLING INTERESTS $'000	**TOTAL EQUITY $'000**
		— Attributable to owners of the Company —					
BALANCE AT 1 JANUARY 2016		360,363	(34,992)	104,584	**429,955**	201,869	**631,824**
Profit for the year		-	-	60,618	**60,618**	13,925	**74,543**
Other comprehensive income		-	44,846	-	**44,846**	(14,683)	**30,163**
TOTAL COMPREHENSIVE INCOME		-	44,846	60,618	**105,464**	(758)	**104,706**
Transfer from asset revaluation reserve	4.2	-	(464)	464	**-**	-	**-**
Transfer from transaction with non-controlling interest reserve	4.2	-	(14,732)	14,732	**-**	-	**-**
Dividends paid	4.4	-	-	(198,118)	**(198,118)**	-	**(198,118)**
Transactions with non-controlling interests		-	-	-	**-**	(3,630)	**(3,630)**
Share based payments expense	4.2	-	144	-	**144**	-	**144**
Acquisitions and divestments of subsidiaries and operations		-	-	(51,886)	**(51,886)**	(197,481)	**(249,367)**
Balance at 31 December 2016		360,363	(5,198)	(69,606)	**285,559**	-	**285,559**
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	4.4	-	-	(18,622)	**(18,622)**	-	**(18,622)**
Supplementary dividends paid	4.4	-	-	(2,785)	**(2,785)**	-	**(2,785)**
Tax credit on supplementary dividends		-	-	2,785	**2,785**	-	**2,785**
Transfer from transaction 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**

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 2017

	NOTE	**2017 $'000**	2016 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		**387,228**	581,485
Payments to suppliers and employees		**(336,626)**	(488,558)
Dividends received		**128**	141
Interest received		**139**	223
Interest paid		**(5,804)**	(8,811)
Income taxes paid		**(5,610)**	(22,798)
Net cash inflows / (outflows) from operating activities	4.7	**39,455**	61,682
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment		**(4,881)**	(11,549)
Payments for intangible assets including software		**(10,165)**	(4,407)
Proceeds from sale of property, plant and equipment		**27**	2,251
Proceeds from divestment of subsidiaries, net of their cash, as part of internal restructure		**-**	95,936
Payments for investment in other entities		**-**	(848)
Net loans repaid / (advanced) to other entities		**-**	2,278
Net cash inflows / (outflows) from investing activities		**(15,019)**	83,661
CASH FLOWS FROM FINANCING ACTIVITIES			
Loans advanced / (repaid) by related parties		**-**	(55,958)
Proceeds from borrowings	4.5	**84,000**	54,000
Repayments of borrowings	4.5	**(96,486)**	(127,242)
Payments for borrowing cost		**-**	(400)
Dividends paid to Company's shareholders		**(18,622)**	(6,860)
Net payments to non-controlling interests		**-**	(3,630)
Net cash inflows / (outflows) from financing activities		**(31,108)**	(140, 090)
Net increase / (decrease) in cash and cash equivalents		**(6,672)**	5,253
Cash and cash equivalents at beginning of the year		**16,242**	11,065
Effect of exchange rate changes		**-**	(76)
Cash and cash equivalents at end of the year	4.7	**9,570**	16,242

The Consolidated Statement of Cash Flows includes cash flows from continuing and discontinued operations. Refer to Note 6.1 and the Consolidated Financial Statements for the year ended 31 December 2016 (available on the Company's website) for further information on cash flows from discontinued operations.

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1.0 BASIS OF PREPARATION

1.1 REPORTING ENTITY AND STATUTORY BASE

NZME Limited (NZX 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 21 February 2018.

1.2.1 Basis of measurement

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

1.2.2 Comparatives

Certain prior period information has been re-presented consistent with current year disclosures to provide more meaningful comparison.

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

1.3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the consolidated financial statements requires the use of certain significant judgements, accounting estimates and assumptions, including judgements, estimates and assumptions concerning the future. The estimates and assumptions are based on historical experiences and other factors that are considered to be relevant. The resulting accounting estimates will by definition, seldom equal the related actual results and are reviewed on an ongoing basis. A list of those areas of significant estimation or judgement and a reference to the notes containing further information is provided below:

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

1.4 SIGNIFICANT CHANGES

1.4.1 Demerger from APN News & Media Limited (now HT&E Limited) and tax settlement in the prior year

The Company completed its demerger from APN News & Media Limited (subsequently rebranded as HT&E Limited ("HT&E)) on 29 June 2016, marking the creation of a standalone New Zealand Group focused on the operation of an integrated print, radio and digital media and entertainment business. On 23 June 2016, the Company and HT&E reached a binding heads of agreement with the Inland Revenue Department ("IRD") to settle the Mandatory Convertible Note transaction, the Branch financing transaction, non-resident withholding tax and thin capitalisation issues, and a further matter that was under review by the IRD. The demerger and tax settlement had a significant impact on the audited consolidated financial statements for the year ended 31 December 2016 as shown in the comparatives to these consolidated financial statements. The demerger and the tax settlement did not have a material impact on the year ended 31 December 2017. Detailed notes regarding the demerger and the tax settlement are included in the audited consolidated financial statements for the year ended 31 December 2016 available on the Company's website. Also refer to note 6.1 of these consolidated financial statements.

1.4.2 Proposed Merger with Stuff Limited

On 7 September 2016 the Company and Fairfax Media Limited ("Fairfax") announced the signing of a merger implementation agreement to effect the merger of the Company and Stuff Limited,formerly Fairfax New Zealand Limited, ("Stuff").

The New Zealand Commerce Commission ("NZCC") declined to grant clearance or authorisation for the proposed merger of the Company with Stuff on 3 May 2017.

On 26 May 2017 the Company, Fairfax and Stuff announced that they would appeal the NZCC's decision in the High Court.

A nine day hearing was held in October 2017 and on 19 December 2017 we announced that the High Court has upheld the NZCC's decision not to clear or authorise the proposed merger. The Company, Fairfax and Stuff have now applied for leave to appeal the High Court decision upholding the NZCC's decision not to clear or authorise the proposed merger of the two businesses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
2.0 GROUP PERFORMANCE

2.1 REVENUE AND OTHER INCOME

	2017 $'000	2016 $'000
FROM CONTINUING OPERATIONS		
Advertising revenue	**279,095**	295,141
Circulation and subscription revenue	**83,263**	86,782
Services revenue	**12,542**	12,206
Other revenue	**15,788**	13,727
Revenue from continuing operations	**390,688**	407,856
Dividends	**128**	141
Rental income from sub-leases	**632**	586
Profit / (loss) on disposal of properties and businesses	**-**	1,320
Profit / (loss) on disposal of property, plant and equipment	**27**	-
Other income	**787**	2,047
Interest income – related parties	**-**	91
Interest income – other entities	**139**	202
Finance income	**139**	293
Total finance and other income	**926**	2,340
Total revenue and other income	**391,614**	410,196
FROM DISCONTINUED OPERATIONS (REFER TO NOTE 6.1)		
Total revenue and other income	**-**	127,542

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2.2 EXPENSES

2.2.1 Expenses from operations before finance costs, depreciation, amortisation

	2017 $'000	2016 $'000
FROM CONTINUING OPERATIONS		
Employee benefits expense	**157,350**	161,610
Production and distribution expense	**75,045**	82,301
Selling and marketing expense	**47,569**	45,840
Rental and occupancy expense	**21,986**	23,711
Masthead license fees	**-**	12,216
Costs in relation to one-off projects	**2,970**	6,946
Redundancies and associated costs	**4,314**	6,009
Asset write-downs and business closures	**275**	-
Repairs and maintenance costs	**6,973**	6,166
Travel and entertainment costs	**4,180**	4,086
Other	**12,177**	14,668
Total expenses from operations before finance costs, depreciation, amortisation	**332,839**	363,553

	2017 $'000	2016 $'000
2.2.2 Depreciation & amortisation		
FROM CONTINUING OPERATIONS		
Depreciation	**15,559**	16,173
Amortisation	**9,387**	7,672
Total depreciation & amortisation	**24,946**	23,845
2.2.3 Finance cost		
FROM CONTINUING OPERATIONS		
Interest and finance charges – related parties	**-**	2,765
Interest and finance charges – other entities	**4,391**	6,482
Borrowing cost amortisation	**106**	53
Total finance cost	**4,497**	9,300

	2017 $'000	2016 $'000
2.2.4 Fees paid to auditors		
Fees paid to the Group's auditors, PricewaterhouseCoopers, consist of:		
Audit or review of financial statements[A]	**368**	454
Other services		
Other assurance services[B]	**51**	6
Tax services[C]	**109**	1,057
Other services[D]	**125**	1,231
Total other services	**285**	2,294
Total fees paid to auditors	**653**	2,748

(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, tax pooling services (2016 only) and services relating to the IRD settlement (2016 only). (D) Includes due diligence and advisory services relating to the proposed merger with Stuff Limited of $124,941 (2016: $1,224,179).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2.3 EARNINGS PER SHARE

Significant Judgement

Under the Group's Total Incentive Plan ("TIP") as discussed in Note 4.3, Performance Rights were issued to certain participating employees that, 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.

	2017 $'000	2016 $'000
RECONCILIATION OF EARNINGS USED IN CALCULATING BASIC / DILUTED EARNINGS PER SHARE ("EPS")		
Profit / (Loss) from continuing operations attributable to owners of the parent entity	**20,885**	(54,884)
Profit from discontinuing operations attributable to owners of the parent entity	**-**	115,502
Profit / (Loss) attributable to owners of the parent entity used in calculating EPS	**20,885**	60,618

	2017 NUMBER	2016 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

	2017 CENTS	2016 CENTS
BASIC / DILUTED EARNINGS PER SHARE		
From continuing operations attributable to owners of the parent entity	**10.7**	(28.0)
From discontinuing operations attributable to owners of the parent entity	**-**	58.9
Total basic / diluted earnings per share attributable to owners of the parent entity	**10.7**	30.9

Accounting policies

Basic earnings per share (from continuing operations)

Basic earnings per share is determined by dividing:

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

Diluted earnings per share (from continuing operations)

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

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

(Note that there are no dilutive potential ordinary shares in 2017 (2016: nil)).

Basic / dilutive earnings per share (from discontinued operations)

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

2.4 SEGMENT INFORMATION

2.4.1 Determination and description of segments

Significant Judgement

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

Integrated Media and Entertainment incorporates the sale of advertising, goods and services generated from the audiences attached to the Group's media platforms.

2.4.2 Segment revenues and results

The segment information provided to the Directors and Executive Team for the year ended 31 December 2017 is as follows:

	2017 $'000	2016 $'000
REVENUES FROM EXTERNAL CUSTOMERS BY CHANNEL		
Print	**221,319**	239,127
Radio & Experiential	**110,071**	114,849
Digital & e-Commerce	**56,327**	52,153
Segment revenue from integrated media and entertainment activities	**387,717**	406,129
Revenue from shared service centre	**2,971**	1,727
Total revenues from external customers	**390,688**	407,856
Dividend income	**128**	141
Rental income from sub-leases	**632**	586
Expenses from operations before finance costs, depreciation, amortisation and exceptional items	**(325,280)**	(338,382)
Total Segment Adjusted EBITDA[A]	**66,168**	70,201
Depreciation and amortisation	**(24,946)**	(23,845)
Interest income	**139**	293
Finance cost	**(4,497)**	(9,300)
EXCEPTIONAL ITEMS		
Gain / (loss) on disposal of properties and businesses[B]	**(248)**	1,320
Masthead royalty charges[C]	**-**	(12,216)
Redundancies and associated costs[D]	**(4,314)**	(6,009)
Costs in relation to one off projects[E]	**(2,970)**	(6,946)
Profit / (Loss) before tax from continuing operations	**29,332**	13,498

(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) Gain / (loss) on disposal of properties and businesses is the loss on sale of land in Ouruhia and Greymouth in 2017 and the gain on sale of the Wairarapa Times Age, Whakatane News offset by loss on sale of property in Nelson in 2016. (C) Costs charged from a subsidiary company of HT&E for use of NZ publishing mastheads in 2016. On 24 June 2016, the Group acquired certain NZ publishing mastheads on normal commercial terms from this subsidiary company of HT&E. As a result, masthead royalty charges have not been incurred by the Group from 24 June 2016 onwards. (D) The redundancies and associated costs relate to the restructuring and integration of the New Zealand operations. (E) The costs related to one off projects refers primarily to costs of external consultants assisting with the proposed merger with Stuff and the continuing integration and co-location of NZME. In 2016 this also included costs relating to listing.

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 Judgement

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

	GOODWILL $'000	SOFTWARE $'000	MASTHEAD BRANDS $'000	RADIO LICENCES $'000	BRANDS $'000	**TOTAL $'000**
AS AT 1 JANUARY 2016						
Cost	177,006	46,587	-	479,492	59,079	**762,164**
Accumulated amortisation and impairment	(95,614)	(35,316)	-	(34,134)	-	**(165,064)**
Net book value	81,392	11,271	-	445,358	59,079	**597,100**
FOR THE YEAR ENDED 31 DECEMBER 2016						
Opening net book amount	81,392	11,271	-	445,358	59,079	**597,100**
Additions[A]	-	4,286	146,976	-	-	**151,262**
Divestment of subsidiaries and operations[B]	(10,804)	-	-	(390,454)	-	**(401,258)**
Amortisation	-	(4,721)	-	(3,422)	-	**(8,143)**
Foreign exchange differences	195	34	-	(9,414)	-	**(9,185)**
Net book value	70,783	10,870	146,976	42,068	59,079	**329,776**
AS AT 31 DECEMBER 2016						
Cost	166,397	49,309	146,976	77,457	59,079	**499,218**
Accumulated amortisation and impairment	(95,614)	(38,439)	-	(35,389)	-	**(169,442)**
Net book value	70,783	10,870	146,976	42,068	59,079	**329,776**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	GOODWILL $'000	SOFTWARE $'000	MASTHEAD BRANDS $'000	RADIO LICENCES $'000	BRANDS $'000	**TOTAL $'000**
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**
Amortisation	-	(6,434)	-	(2,953)	-	**(9,387)**
Transfers and other adjustments[C]	-	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 impairment	(95,614)	(44,874)	-	(38,342)	-	**(178,830)**
Net book value	70,783	14,510	146,976	39,205	59,079	**330,553**

(A) Prior to the implementation of the demerger, the Group acquired certain NZ publishing Masthead Brands on normal commercial terms from a subsidiary company of APN News & Media Limited (now HT&E Limited ("HT&E")). These Masthead Brands were purchased for consideration of $146,976,000 together with a termination amount in regard to the masthead license of $2,065,575, which was incurred as the Group early terminated the masthead licences agreement with HT&E. (B) The Company completed its demerger from HT&E on 29 June 2016. Refer to Note 6.1 and the Consolidated Financial Statements for the year ended 31 December 2016 (available on the Company's website) for further details around assets disposed and acquired as part of the Internal Restructure. (C) Included in plant and equipment is capitalised work in progress which is transferred to the relevant asset category (including software) once the project is complete (refer to note 3.2). Transfers and other adjustments primarily comprise of transfers from work in progress during the year.

Accounting policies

Goodwill

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

Software

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

Radio licences

Commercial radio licences are accounted for as identifiable assets and are 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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3.1.1 Year-end impairment review

Significant Judgement
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 calculations.

A comprehensive impairment review was conducted at 31 December 2017. The recoverable amount of the CGU (which includes goodwill and indefinite life intangible assets) is determined based on the higher of fair value less costs to sell and value in use calculations using management budgets and forecasts. The recoverable amount of the CGU is compared against the carrying value of the CGU to determine whether there has been an impairment.

Key estimates and assumptions

	2017 Post-tax discount rate	**2017 Long-term growth rate**	2016 Post-tax discount rate	2016 Long-term growth rate
Integrated Media and Entertainment CGU	**9.5%**	**0%**	9.5%	0%

Year 1 cash flows:
Based on Board approved annual budget.

Years 2 to 5 cash flows
Revenue forecasts are prepared based on management's current expectations, with consideration given to internal information and relevant external industry data and analysis. In particular:

- Print revenues are forecast to decline in line with recent experience and industry trends.
- Digital revenues are forecast to grow based on recent experience and industry trends and include cash flow assumptions for new digital ventures being launched in 2018.
- Radio and experiential revenues are forecast to grow based on management expectations of performance as a result of investment in key initiatives.

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

3.1.2 Impact of reasonably possible change in key assumptions

The forecasts used in impairment testing require assumptions and judgements about the future, such as discount rates, long term growth rates, forecasted print and digital revenues, to which the model is sensitive and which are inherently uncertain. Given these uncertainties, the Group has adopted a valuation approach based on scenario analysis for those scenarios that it considers to be reasonably likely to occur. Based on all available information, the directors do not consider there to be any reasonably possible change in the key assumptions that would cause impairment. Accordingly, based on the annual impairment assessment performed, there is no impairment.

Accounting policies

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

3.2 PROPERTY, PLANT AND EQUIPMENT

	FREEHOLD LAND[B] $'000	BUILDINGS[B] $'000	PLANT AND EQUIPMENT[C] $'000	**TOTAL $'000**
AS AT 1 JANUARY 2016				
Cost or fair value	2,990	480	404,483	**407,953**
Accumulated depreciation and impairment	-	-	(308,737)	**(308,737)**
Net book amount	2,990	480	95,746	**99,216**
YEAR ENDED 31 DECEMBER 2016				
Opening net book amount	2,990	480	95,746	**99,216**
Additions	-	1,576	10,160	**11,736**
Disposals	(752)	(98)	(172)	**(1,022)**
Divestment of subsidiaries and operations[A]	(1,133)	(714)	(14,928)	**(16,775)**
Depreciation	-	(2,217)	(15,832)	**(18,049)**
Transfers and other adjustments[C]	302	13,335	(12,701)	**936**
Foreign exchange differences	(26)	(17)	(322)	**(365)**
Net book amount	1,381	12,345	61,951	**75,677**

(Footnotes on the next page)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	FREEHOLD LAND[B] $'000	BUILDINGS[B] $'000	PLANT AND EQUIPMENT[C] $'000	**TOTAL $'000**
AS AT 31 DECEMBER 2016				
Cost or fair value	1,381	14,562	336,730	**352,673**
Accumulated depreciation and impairment	-	(2,217)	(274,779)	**(276,996)**
Net book amount	1,381	12,345	61,951	**75,677**
YEAR ENDED 31 DECEMBER 2017				
Opening net book amount	1,381	12,345	61,951	**75,677**
Additions	-	273	12,759	**13,032**
Disposals	(216)	(8)	(60)	**(284)**
Depreciation	-	(2,302)	(13,257)	**(15,559)**
Transfers and other adjustments[C]	-	(29)	(8,112)	**(8,141)**
Net book amount	1,165	10,279	53,281	**64,725**
AS AT 31 DECEMBER 2017				
Cost or fair value	1,165	14,764	338,715	**354,644**
Accumulated depreciation and impairment	-	(4,485)	(285,434)	**(289,919)**
Net book amount	1,165	10,279	53,281	**64,725**

(A) The Company completed its demerger from APN News & Media Limited (now HT&E Limited ("HT&E")) on 29 June 2016. Refer to Note 6.1 and the Consolidated Financial Statements for the year ended 31 December 2016 (available on the Company's website) for further details around assets disposed and acquired as part of the Internal Restructure. (B) Freehold land and buildings include leasehold improvements with a net book value of $9,901,993 (2016: $11,942,062) 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 (2016: $658,270) and the net book value of buildings would have been $336,973 (2016: $347,504). The last revaluation was performed for the year ended 31 December 2015.
(C) Included in plant and equipment is capitalised work in progress with a net book value of $8,149,802 (2016: $7,285,650) which is transferred to the relevant asset category (including software) once the project is complete. Transfers and other adjustments primarily comprise of transfers from work in progress during the year. Work in progress is not depreciated until the asset is completed.

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

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

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

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

Plant and equipment, 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

	2017 $'000	2016 $'000
Trade receivables	**44,811**	45,043
Provision for impairment	**(592)**	(1,042)
	44,219	44,001
Amounts due from related companies (note 7.1.2)	**1,028**	750
Other receivables and prepayments	**10,076**	8,880
Total current trade and other receivables	**55,323**	53,631
Movements in the provision for impairment are as follows:		
Balance at beginning of the year	**1,042**	2,146
Provision for impairment expense	**430**	596
Receivables written off	**(880)**	(1,700)
Provision for impairment	**592**	1,042

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 4.9 for fair value information.

Accounting policies

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3.4 TRADE AND OTHER PAYABLES

	2017 $'000	2016 $'000
CURRENT PAYABLES		
Lease liability[A]	**833**	833
Amounts due to related companies (note 7.1.2)	**1,194**	2,654
Employee entitlements	**7,211**	7,104
Trade payables and accruals	**47,656**	55,788
Total current trade and other payables	**56,894**	66,379
NON-CURRENT PAYABLE		
Lease liability[A]	**13,565**	13,423
Total non-current trade and other payables	**13,565**	13,423

(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

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

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

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

Employee entitlements

Wages and salaries and annual leave

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

Short-term incentive plans

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

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

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

Refer to note 4.3 for disclosures relating to share based payments 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:

	2017 $'000	2016 $'000
AS AT 31 DECEMBER		
Total assets	**468,085**	483,540
Less intangible assets	**(330,553)**	(329,776)
Less total liabilities	**(179,053)**	(197,981)
Net tangible assets	**(41,521)**	(44,217)
Number of shares issued (in thousands)	**196,011**	196,011
Net tangible assets per share	**($0.21)**	($0.23)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
4.0 CAPITAL MANAGEMENT

4.1 SHARE CAPITAL

AUTHORISED, ISSUED AND PAID UP SHARE CAPITAL	**2017 NUMBER '000**	2016 NUMBER '000	**2017 $'000**	2016 $'000
Balance at the beginning of the period	**196,011**	378,550	**360,363**	360,363
Shares consolidated as part of the demerger[A]	**-**	(182,539)	**-**	-
Balance at the end of the period	**196,011**	196,011	**360,363**	360,363

(A) On demerger, NZME shares were distributed to eligible APN News & Media Limited (now HT&E Limited ("HT&E")) shareholders at a ratio of one NZME share for every one HT&E share. Also refer to note 6.1 and the Consolidated Financial Statements for the year ended 31 December 2016 (available on the Company's website) for further details on the demerger.

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

4.2 RESERVES

	2017 $'000	2016 $'000
SHARE BASED PAYMENTS RESERVE		
Balance at the beginning of the year	**144**	-
Share based payment expense	**1,225**	144
Balance at end of the year	**1,369**	144
ASSET REVALUATION RESERVE		
Balance at beginning of the year	**722**	1,186
Transfer to retained earnings due to asset disposals and discontinued operations	**-**	(464)
Balance at end of year	**722**	722
FOREIGN CURRENCY TRANSLATION RESERVE		
Balance at beginning of the year	**309**	(44,537)
Foreign exchange transfers	**-**	44,844
Net exchange difference on translation of foreign operations	**(15)**	2
Total movement for the year	**(15)**	44,846
Balance at end of year	**294**	309
TRANSACTIONS WITH NON-CONTROLLING INTERESTS RESERVE		
Balance at beginning of the year	**(6,373)**	8,359
Transfer to retained earnings	**6,373**	(14,732)
Balance at end of year	**-**	(6,373)
Total reserves	**2,385**	(5,198)

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

Following the demerger, there is no non-controlling interest in any of the Group's subsidiaries and the remaining balance at the beginning of the year relates to historical transactions with minority interests in entities that are still part of the Group. Given that there are no non-controlling interests in any of the Group entities, the remaining balance has been transferred to another category of equity; retained earnings.

4.3 SHARE BASED PAYMENTS

	2017		2016	
	AVERAGE PRICE PER RIGHT (CENTS)	**NUMBER OF RIGHTS**	AVERAGE PRICE PER RIGHT (CENTS)	NUMBER OF RIGHTS
As at 1 January	**0.58**	**745,301**	-	-
Granted (2016 TIP)[A]	**0.58**	**70,236**	0.58	745,301
Granted (2017 TIP)	**0.90**	**1,933,927**	-	-
Forfeited[B]	**0.58**	**(101,820)**	-	-
Exercised	**-**	**-**	-	-
As at 31 December	**0.81**	**2,647,644**	0.58	745,301

(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 2017 to 31 December 2017, this will result in an additional 96,862 shares being issued to the participants. (B) Two participants in the 2016 TIP departed 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	
GRANT DATE	VESTING DATE	VALUE OF RIGHT AT GRANT DATE (CENTS)	**2017 $'000**	2016 $'000
20 December 2016	31 Dec 2017	0.58	**414**	432
25 September 2017	31 Dec 2018	0.90	**1,741**	-
As at 31 December			**2,155**	432
Share based payment expense recognised in the current period (refer to note 4.2)			**1,225**	144

	2017	2016
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	**34 months**	36 months

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 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 on which the terms, as approved by the Board, 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.

4.3.3 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 the performance measures are met:

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

The performance period for the 2016 awards is a 6 month period which commenced on 1 July 2016. Going forward, the performance period will be a 12 month period commencing at the start of the financial year. Subject to remaining employed by the Company for a further one year period following the performance period ("service period"), rights will vest and will be kept in trust for a further two years ("deferral period"). Vested rights will automatically convert into ordinary shares for $nil consideration at the end of the deferral period without the requirement for the participant to exercise their Rights. Participants will receive an additional allocation of shares 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 on which the terms, as approved by the Board, 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 service period and the deferral period. The fair value is measured at grant date and the number of rights are determined using the volume weighted average price of NZME's shares on the NZX 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 23 February 2017, the Board of Directors declared a fully imputed final dividend for the year ended 31 December 2016 of 6 cents per share, paid on 28 April 2017 to registered shareholders as at 11 April 2017. The Board of Directors also declared a supplementary dividend of 1.06 cents per share, paid on 28 April 2017 to registered shareholders as at 11 April 2017, to those shareholders who are not tax residents in New Zealand and who hold less than 10% of the shares in the Company. On 24 August 2017, the Board of Directors declared a fully imputed interim dividend of 3.5 cents per share, paid on 27 October 2017 to registered shareholders as at 17 October 2017. The Board of Directors also declared a supplementary dividend of 0.62 cents per share, paid on 27 October 2017 to registered shareholders as at 17 October 2017, to those shareholders who are not tax residents in New Zealand and who hold less than 10% of the shares in the Company. 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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4.4.2 Dividends declared after balance date

On 21 February 2018, the Board of Directors declared a fully imputed final dividend of 6 cents per share, to be paid on 3 May 2018 to registered shareholders as at 18 April 2018. The Board of Directors also declared a supplementary dividend of 1.06 cents per share, to be 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. The payment of a supplementary dividend effectively puts non-resident shareholders in the position they would have been had they received imputation credits (which are only available to resident shareholders).

4.4.3 Franking and imputation credits

	2017 '000	2016 '000
Imputation credits available for subsequent reporting periods based on the New Zealand 28% tax rate for the Group	**NZ$ 8,519**	NZ$4,739
Franking credits available to the Company for subsequent reporting periods based on the Australia 30% tax rate for the Group	**AU$ 0 [A]**	AU$ 0 [A]

(A) Although the Company does not have any franking credits available for use, other entities within the Group have AU$10,828,676 (2016:AU$10,828,676) available that might become available to the Company in future periods.

4.5 INTEREST BEARING LIABILITIES

	2017 $'000	2016 $'000
Non-current interest bearing liabilities		
Bank loans – secured	**100,000**	112,486
Deduct:		
Capitalised borrowing costs	**(212)**	(318)
Total non-current interest bearing liabilities	**99,788**	112,168
NET DEBT		
Non-current interest bearing liabilities	**100,000**	112,486
Capitalised borrowing costs	**(212)**	(318)
Cash and cash equivalents	**(9,570)**	(16,242)
Total debt less cash and cash equivalents	**90,218**	95,926

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The change in the bank loans - secured balance for the year ended 31 December 2017 of $12,486,375 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 $212,220 for the year ended 31 December 2017 is due to 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$160 million bilateral bank loan facility, which NZME entered into on 29 June 2016, of which $100 million (2016: $112.5 million) is drawn and $60 million (2016: $47.5 million) is undrawn as at 31 December 2017. The facility expires on 1 January 2020.

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

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

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

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.

	2017 $'000	2016 $'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	**16,389**	16,406
Later than one year but not later than five years	**48,973**	52,307
Later than five years	**62,185**	71,856
Commitments not recognised in the financial statements	**127,547**	140,569

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4.7 CASH FLOW INFORMATION

	2017 $'000	2016 $'000
RECONCILIATION OF CASH		
Cash at end of the year, as shown in the statements of cash flows, comprises:		
Cash and cash equivalents	**9,570**	16,242
RECONCILIATION OF NET CASH INFLOWS (OUTFLOWS) FROM OPERATING ACTIVITIES TO PROFIT / (LOSS) FOR THE YEAR:		
Profit / (loss) for the year	**20,885**	74,543
Depreciation and amortisation expense	**24,946**	26,193
Borrowing cost amortisation	**106**	53
Net loss on sale of non-current assets	**216**	9
Gain on sale of business after tax	**-**	(192,519)
Reclassification of foreign currency translation reserve	**-**	65,326
Change in current / deferred tax payable	**2,837**	41,289
Current tax funded through related party balances	**-**	(12,842)
Foreign exchange losses / (gains)	**-**	1,086
Asset write offs and business closure	**-**	15
Revaluation/impairment of financial assets	**-**	(2,245)
Change in fair value of financial instrument	**-**	31,481
Share based payment expense	**1,225**	144
Changes in assets and liabilities net of effect of acquisitions:		
Trade and other receivables	**(187)**	51,104
Inventories	**299**	730
Prepayments	**(1,505)**	(306)
Trade and other payables and employee benefits	**(9,367)**	(22,379)
Net cash inflows/(outflows) from operating activities	**39,455**	61,682

4.8 FINANCIAL RISK MANAGEMENT

4.8.1 Capital and Risk Management

The Group's objectives when managing capital are to:

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

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

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

The Group's activities expose it to a variety of financial risks: market risk (including 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

(a) Cash flow and fair value interest rate risk

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

Based on the outstanding net floating debt at 31 December 2017, a change in interest rates of +/-1% per annum with all other variables being constant would impact post-tax profit and equity by $1.0 million lower/higher (2016: $1.1 million lower/higher).

(c) Price risk

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

4.8.3 Credit Risk

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

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

	CURRENT	LESS THAN ONE MONTH	PAST DUE: ONE TO THREE MONTHS	PAST DUE: THREE TO SIX MONTHS	PAST DUE: OVER SIX MONTHS	TOTAL
	$'000	$'000	$'000	$'000	$'000	$'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**
2016						
Expected loss rate	0.0%	0.7%	6.5%	47.8%	62.0%	
Trade Receivables	23,890	17,186	2,616	619	732	**45,043**
Impaired receivables		(121)	(171)	(296)	(454)	**(1,042)**
	23,890	17,065	2,445	323	278	**44,001**

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 2017, trade receivables of $3,375,000 (2016: $3,046,000) were past due but not impaired.

The maximum exposure to credit risk at 31 December is equal to the carrying amount of cash and cash equivalents and trade and other receivables. The Group is not exposed to any concentrations of credit risk within cash and cash equivalents or trade and other receivables.

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

4.8.4 Liquidity risk

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

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

	LESS THAN ONE YEAR $'000	BETWEEN ONE AND TWO YEARS $'000	BETWEEN TWO AND FIVE YEARS $'000	OVER FIVE YEARS $'000
31 DECEMBER 2017				
Trade payables	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	-
31 DECEMBER 2016				
Trade payables	55,788	-	-	-
Bank loans	4,480	4,480	116,966	-
Gross liability	60,268	4,480	116,966	-
Less: interest	(4,480)	(4,480)	(4,480)	
Total financial liabilities	55,788	-	112,486	-

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

	2017 $'000	2016 $'000
RECURRING FAIR VALUE MEASUREMENTS (LEVEL 3)		
There are no financial assets carried at fair value. Other financial assets of $5,988,765 (2016: $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**	1,381
Buildings (excluding leasehold improvements)	**377**	403
Total non-financial assets	**1,542**	1,784

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 2017 or 31 December 2016 (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 2017, the borrowing rates were determined to be between 3.3% and 4% (2016: between 3.5% 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 at least every three years for its freehold land and buildings (classified as property, plant and equipment in note 3.2), less subsequent depreciation for buildings. This is considered sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. All resulting fair value estimates for properties are included as Level 3.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
5.0 TAXATION

5.1 INCOME TAX

	2017 $'000	2016 $'000
REPORTED INCOME TAX EXPENSE / (BENEFIT) COMPRISES:		
Current tax expense / (benefit)	**10,529**	70,791
Deferred tax expense / (benefit)	**(1,972)**	8,175
(Over) / under provision in prior years	**(110)**	(3,310)
Income tax expense	**8,447**	75,656
Income tax is attributable to:		
Profit from continuing operations	**8,447**	64,050
Profit from discontinued operations	**-**	11,606
Total income tax expense	**8,447**	75,656
INCOME TAX EXPENSE DIFFERS FROM THE AMOUNT PRIMA FACIE PAYABLE AS FOLLOWS:		
Profit from operations before tax		
From continuing operations	**29,332**	13,498
From discontinued operations	**-**	136,701
	29,332	150,199
Prima facie income tax at 28%	**8,213**	42,056
IRD settlement	**-**	16,968
Non assessable asset sales and exempt distribution receipts	**(27)**	(275)
Non-deductible expenses	**675**	1,554
Derecognition of deferred tax on losses and foreign tax credits	**-**	62,035
Derecognition of deferred tax on intangible assets	**-**	(15,803)
Differences in international tax rates	**(8)**	(2)
Effects of accounting for discontinued operations	**-**	(26,498)
Other	**(296)**	(1,069)
(Over) / under provision in prior years	**(110)**	(3,310)
Income tax expense	**8,447**	75,656

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5.2 DEFERRED TAX

Deferred tax assets and liabilities are attributable to:

	BALANCE	RECOGNISED IN INCOME $'000	RECOGNISED IN EQUITY $'000	OTHER MOVEMENTS $'000	**BALANCE $'000**
2016					
Tax credits	1,890	(1,887)	-	-	**3**
Tax losses	67,149	(61,549)	-	(5,600)	**-**
Employee benefits	2,987	(1,554)	-	-	**1,433**
Doubtful debts	636	(345)	-	-	**291**
Accruals / restructuring	705	397	-	-	**1,102**
Intangible assets	(43,155)	42,031	595	-	**(529)**
Property plant and equipment	(8,860)	3,490	-	-	**(5,370)**
Other	(11,383)	11,242	-	-	**(141)**
	9,969	(8,175)	595	(5,600)	**(3,211)**
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)**

There are unrecognised tax losses of $1,917,077 (AUD1,744,812) (2016: $1,811,935 (AUD1,744,812)) in an Australian subsidiary of the Company which have not been recognised as there is uncertainty as to their future recoverability. The deferred tax asset on these losses were not offset against the deferred tax liabilities of the rest of the Group because they are levied by a different tax authority.

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 NZME DEMERGER FROM APN

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

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

Detailed disclosures regarding the demerger (which affects the comparative figures included in these consolidated financial statements) are included in the audited consolidated financial statements for the year ended 31 December 2016 available on the Company's website.

6.2 CONTROLLED ENTITIES

Significant Judgement

Prior to the Demerger as described in note 6.1, the Group held 50% of the issued capital of Australia Radio Network Pty Ltd, but exercised effective control over the entity based on the Board and management representation and the 76.8% economic interest held by the Group.

The consolidated financial statements incorporate the assets, liabilities and results of the subsidiaries listed below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the Group, and the proportion of ownership interest held equals the voting rights held by the Group. All entities are incorporated in, and operate in, New Zealand unless otherwise stated. There were no changes in control during the year ended 31 December 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NAME OF ENTITY	2017	2016
Adhub Limited	**100%**	100%
ESKY Limited	**100%**	100%
Grabone Limited	**100%**	100%
Idea HQ Limited	**100%**	100%
Mt Maunganui Publishing Co Limited	**100%**	100%
NZME 2014 Limited	**100%**	100%
NZME Australia Pty Limited[A]	**100%**	100%
NZME Digital Limited	**100%**	100%
NZME Educational Media Limited	**100%**	100%
NZME Finance Limited	**100%**	100%
NZME Holdings Limited	**100%**	100%
NZME Investments Limited	**100%**	100%
NZME Online Limited	**100%**	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	**100%**	100%
Regional Publishers Limited	**100%**	100%
Sell Me Free Limited	**100%**	100%
Sella Limited	**100%**	100%
Stanley Newcomb & Co Limited	**100%**	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	**100%**	100%
W & H Interactive Limited	**100%**	100%

(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.

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, other than for common control transactions.

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.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6.3 INTERESTS IN OTHER ENTITIES

6.3.1 Associates, joint ventures and joint operations

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

	OWNERSHIP INTEREST 2017	OWNERSHIP INTEREST 2016
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[A]	**20%**	20%
The Newspaper Publishers Association of New Zealand Incorporated[C]	**-**	-
The New Zealand Press Council Incorporated[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.

Accounting policies

Associates

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

Joint arrangements

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

For material joint operations, the Group recognises its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. These have been incorporated in the financial statements under the appropriate headings.

Interests in material joint ventures are accounted for using the equity method (see below) after initially being recognised at cost in the consolidated balance sheet.

Equity method of accounting

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

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

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

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

6.3.2 Other financial assets

	2017 $'000	2016 $'000
Shares in other corporations	**5,988**	5,988
Total other financial assets	**5,988**	5,988

Shares in other corporations consist of investments in entities that are not consolidated or equity accounted (see also note 6.3.1). These investments are carried at cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
7.0 OTHER NOTES

7.1 RELATED PARTIES

7.1.1 Key management compensation

	2017 $'000	2016 $'000
TOTAL REMUNERATION FOR DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL:		
Short term benefits	**5,935**	5,510
Termination benefits	**364**	52
Dividends	**33**	10
Share-based payments	**1,225**	144
	7,557	5,716

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 $3,385,000 (2016: $4,134,000) from The Beacon Printing & Publishing Company Limited, a company in which the Group holds an interest in.

New Zealand entities in the Group offset tax losses to New Zealand entities outside the Group of $nil (2016: $35,110,134) for consideration of $nil (2016: $9,830,837).

In November 2015, the Company, Stuff, 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 $2,768,773 (2016: $2,359,475) and paid commission of $412,931 (2016: $358,782).

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 New Zealand Limited, valued at $66,879 (2016:$10,706), Restaurant Hub Limited, valued at $281,923 (2016:$41,415) and Ratebroker Limited, valued at $1,174,394 (2016: $nil). The outstanding balances for future services are included in the table below, along with other receivables and payables.

	2017 RECEIVABLES $'000	2016 RECEIVABLES $'000	2017 PAYABLES $'000	2016 PAYABLES $'000
Balances with related party				
KPEX Limited	**1,028**	750	**148**	113
Chinese New Zealand Herald Limited	**-**	-	**43**	43
Eveve New Zealand Limited	**-**	-	**28**	194
Restaurant Hub Limited	**-**	-	**449**	604
Ratebroker Limited	**-**	-	**526**	1,700
Total related party receivables and payables	**1,028**	750	**1,194**	2,654

7.1.3 Transactions with pre-Demerger related parties

The Company was, until the 29 June 2016, a wholly owned subsidiary of the APN News & Media Limited (subsequently rebranded as HT&E Limited ("HT&E")) group. The transactions with these HT&E related parties as described below include transactions up to 29 June 2016, the date on which these parties ceased being related parties to the Group.

In 2016 amounts due from related parties of $304,931,000 and amounts due to related parties of $322,304,000 have been settled, with a significant portion of the settlement occurring as part of the internal restructure prior to the Demerger (refer to Note 6.1 for further details).

In 2016 the Group charged interest of $358,780 to Biffin Pty Ltd a member of the HT&E Group. Biffin Pty Ltd charged management fees to NZME Holdings Limited of $611,056. A Group company, NZME Holdings Limited, charged shared services fees totalling $1,456,000 to related parties.

In 2016, Biffin Pty Ltd repaid loans of $5,012,246 to Group companies.

In 2016, Wilson & Horton Finance Pty Ltd, New Zealand Branch (the "Branch"), charged royalty fees of $12,216,000, advanced $13,200,000, repaid loans of $539,000 and charged interest of $2,765,000 to the Group. The Group charged the Branch, office rental and service fees of $78,000.

7.2 CONTINGENT LIABILITIES

7.2.1 Claims

Claims for damages are made against the Group from time to time in the ordinary course of business. The Group has previously disclosed that Sky Network Television Limited initiated proceedings against NZME Publishing Limited and other NZ media companies alleging breaches of copyright in relation to the use of rugby video footage in news stories. This matter has now been settled on confidential terms.

7.3 SUBSEQUENT EVENTS

Refer to note 1.4.2 for a description of events relating to the proposed merger with Stuff and note 4.4.2 for the dividend declared after the balance date.

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

7.4 NEW STANDARDS AND INTERPRETATIONS ADOPTED IN THE CURRENT YEAR

The Group applied the following new or revised pronouncements for the first time during the year.

Recognition of deferred tax assets for unrealised losses (Amendments to NZ IAS 12) (effective 1 January 2017)

Amendments to clarify that unrealised losses on debt instruments measured at fair value for accounting purposes, but at cost for tax purposes, can give rise to deductible temporary differences; when determining whether future taxable profits are available against which deductible temporary differences may be utilised, tax deductions resulting from the reversal of those deductible temporary differences are excluded; and estimates of future taxable profits may take into account the recovery of an asset for more than its carrying amount if there is sufficient evidence that this recovery is probable. None of these changes had a material impact on disclosures or amounts recognised in these consolidated financial statements.

Disclosure initiative (Amendments to NZ IAS 7) (effective 1 January 2017)

The amendments to NZ IAS 7 require disclosures that allow users of financial statements to evaluate changes in liabilities which arise from financing activities (this includes both changes arising from cash flows and non-cash changes). The amendments apply prospectively from 1 January 2017 and no comparative information is required in the first year of application. Additional disclosures for the year ended 31 December 2017 are included in note 4.5.

7.5 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

NZ IFRS 16 Leases replaces NZ IAS 17 and is effective for periods commencing 1 January 2019. It requires a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. Included is an optional exemption for certain short-term leases and leases of low-value assets for lessees. Although the full impact of this standards has not yet been determined, it will result in additional assets and liabilities when the current operating leases are brought on to the balance sheet; with interest and depreciation replacing the current operating lease expense when the standard is adopted.

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

The Group is currently assessing the effects of applying the new standard on the consolidated financial statements. Although this assessment has not been finalised, we currently expect the standard to result in us concluding that the nature of our promises (and therefore the performance obligations) in certain contra and experiential contracts are that we act as a principal and not as an agent as previously concluded (i.e. the nature of the performance obligations in those contracts are obligations to provide specified goods or services as opposed to arranging for those goods and services to be provided by another party). This is expected to result in an increase in both revenue and the related costs (i.e. the revenue and costs are shown on a gross basis and not on a net basis), without any material impact on profit for the year. The Group does not currently expect the standard to have a material impact on the timing of revenue recognition.

The standard permits either a full retrospective or a modified retrospective approach for adoption. The Group currently intends to adopt the standard using the modified retrospective approach, which means that the cumulative impact (if any) of the adoption will be recognised in retained earnings as at 1 January 2018 and that comparatives will not be restated.

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

Independent auditor's report

To the shareholders of NZME Limited

The consolidated financial statements ("financial statements") comprise:

- the consolidated balance sheet as at 31 December 2017;
- 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 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 2017, 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 financial statements* section of our report.

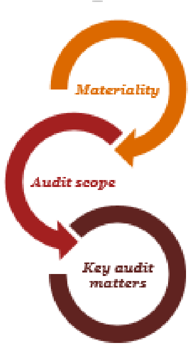
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Our firm carries out other services for the Group in the areas of taxation compliance and advisory services, advisory services in connection with the potential merger with Fairfax, 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.

Our audit approach

Overview



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

Our overall group materiality was $1,845,000, which represents 5% of profit before tax, excluding one-off 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 one-off transactions to reduce volatility and to reflect the underlying performance of the Group.

We have determined that there is one key audit matter for the year to 31 December 2017, 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 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 financial statements as a whole.

Audit scope

We designed our audit by assessing the risk of material misstatement in the 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 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 financial statements of the current year. The key audit matter below was addressed in the context of our audit of the 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 2017 and represent 59% of the total assets of the Group. In completing their annual impairment assessment management utilised a value in use methodology, reflecting the strategic direction of NZME, to determine the value of the business using discounted cash flows. This 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 both existing activities and new ventures which are based on budgets and forecasts 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. In their sensitivity analysis management identified that the model was sensitive to the discount rate, long term growth rate,	We understood the strategic objectives of the business to enable us to evaluate the impairment assessment performed by management. We gained an understanding of the business, how it 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 tested the mathematical accuracy of the 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 gained an understanding of the business process and controls applied by management in their impairment assessment. • 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 for both existing activities and new ventures in the cash flow forecasts, in particular revenue growth for each channel, the expected trends of print and digital revenues, forecast margins and terminal growth rates. This was done with reference to the historic performance of the Group, key initiatives being undertaken and comparison to the results of comparable companies 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

Key audit matter	How our audit addressed the key audit matter
forecasted print and digital revenues. 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.	used by management was materially consistent with this. • We considered a range of reasonably possible scenarios, including those identified by management. For each scenario we tested the mathematical accuracy of the changes made to each assumption, and the impact of those changes on the valuation and comparison to the relevant net asset value of the Group. 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 other 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 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 the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard, except that not all other information was available to us at the date of signing our auditor's report.

Responsibilities of the Directors for the financial statements

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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 financial statements

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

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

https://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 Julian Prior.

For and on behalf of:

PricewaterhouseCoopers.

Chartered Accountants
21 February 2018

Auckland