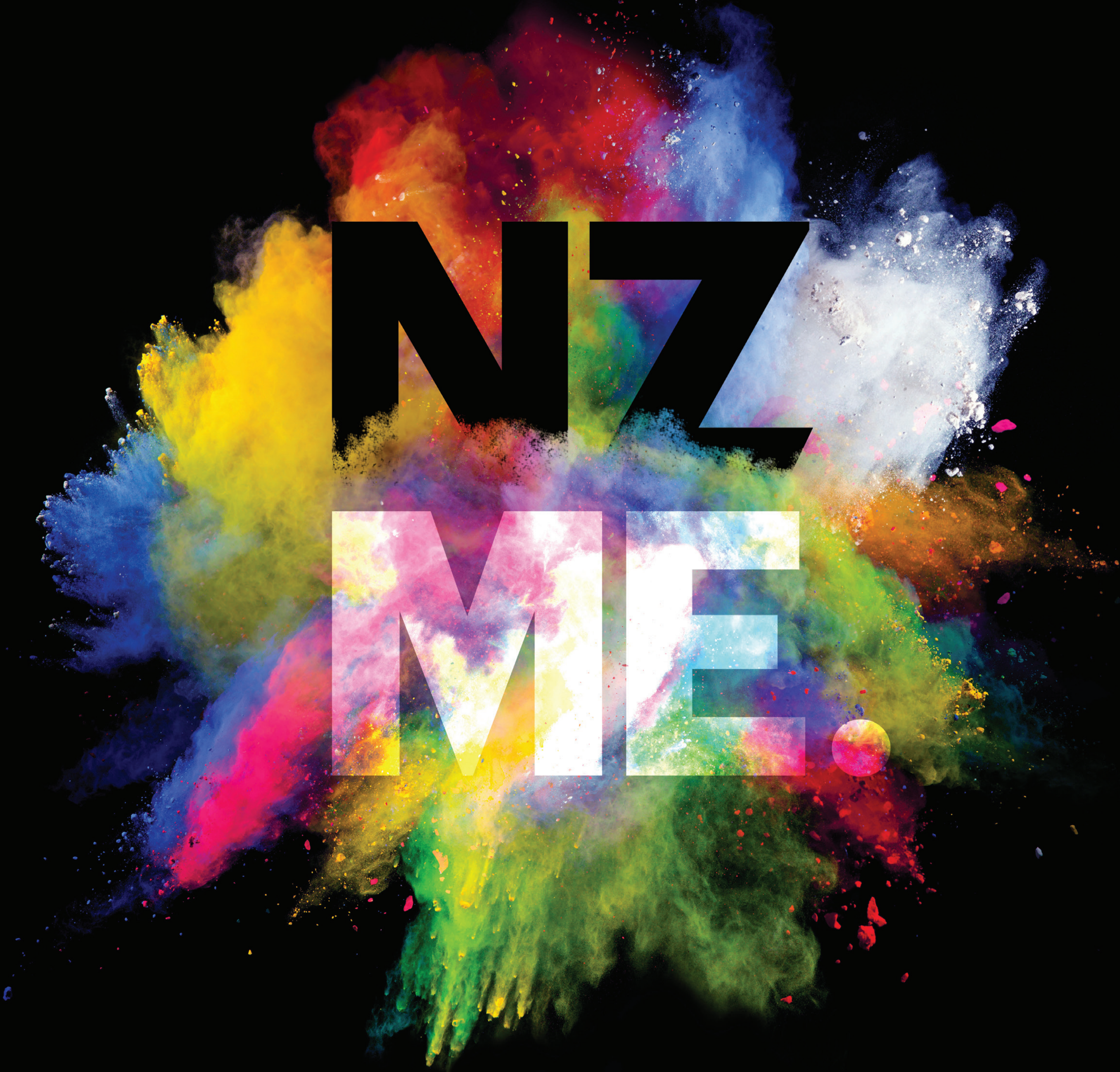

CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

CONTENTS

CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2016

* In an attempt to make these financial statements easier to read, the notes to the financial statements have been grouped into seven sections; aimed at grouping items of a similar nature together. The Basis of Preparation section presents a summary of material information and general accounting policies that are necessary to understand the basis on which these consolidated financial statements have been prepared. Accounting policies specific to a particular note are included in that note and are shaded for ease of reference. Key judgments and estimates relevant to a particular note are also included in the relevant note, and are clearly marked as such. A summary of the key judgments and estimates are also included under the Basis of Preparation section on pages 9 to 11.

DIRECTORS' STATEMENT

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

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

The consolidated financial statements for the Group as presented on pages 2 to 55 are signed on behalf of the Board of Directors, and are authorised for issue on the date below.

For and on behalf of the Board of Directors

Sir John Anderson
Director

Carol Campbell
Director

Date: 23 February 2017

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2016

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

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

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2016

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

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

CONSOLIDATED BALANCE SHEET
as at 31 December 2016

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

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

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

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

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

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

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

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

1.0 BASIS OF PREPARATION

1.1 REPORTING ENTITY AND STATUTORY BASE

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

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

1.2 GENERAL ACCOUNTING POLICIES

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

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

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

1.2.1 Basis of measurement

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

1.2.2 Comparatives

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

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

1.2.3 Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

Group companies
The result and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:
- Assets and liabilities are translated at the closing rate at the date of the balance sheet;
- Income and expenses are translated at average exchange rates; and
- All resulting exchange differences are recognised as a separate component of equity.

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

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

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

1.3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

1.4 SIGNIFICANT CHANGES IN THE CURRENT REPORTING PERIOD

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

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

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

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

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

On 8 November 2016 the NZCC issued a Draft Determination setting out its preliminary view that, based on the information received as at that date, it should decline the proposed merger between NZME and Fairfax NZ. The purpose of the Draft Determination is to elicit further submissions and evidence to assist the NZCC in making a Final Determination.

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

1.4.3 Taxation

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

2.1 REVENUE AND OTHER INCOME

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

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

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

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

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

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

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

2.2 EXPENSES

2.2.1 Expenses from operations before finance costs, depreciation, amortisation

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

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

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

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

2.3 EARNINGS PER SHARE

Significant Judgement

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

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

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

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

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

Accounting policies

Basic earnings per share (from continuing operations)

Basic earnings per share is determined by dividing:

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

Diluted earnings per share (from continuing operations)

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

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

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

Basic / dilutive earnings per share (from discontinued operations)

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

2.4 SEGMENT INFORMATION

2.4.1 Determination and description of segments

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

Significant Judgement

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

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

2.4.2 Segment revenues and results

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

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

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

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

3.1 INTANGIBLE ASSETS

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

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

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

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

Accounting policies

Goodwill

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

Software

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

Radio licences

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

Masthead Brands

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

Accounting policies (continued)

Brands

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

3.1.1 Year-end impairment review

Significant Judgement

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

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

Key estimates and assumptions

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

Year 1 cash flows:

Based on Board approved annual budget.

Years 2 to 5 cash flows

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

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

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

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

3.1.2 Impact of reasonably possible change in key assumptions

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

Accounting policies

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

3.2 PROPERTY, PLANT AND EQUIPMENT

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

(Footnotes on the next page)

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

Accounting policies

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

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

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

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

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

Impairment of assets

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

3.3 TRADE AND OTHER RECEIVABLES

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

3.3.1 Classification

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

3.3.2 Fair values of trade and other receivables

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

3.3.3 Impairment and risk exposure

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

Accounting policies

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

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

3.4 TRADE AND OTHER PAYABLES

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

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

Accounting policies

Trade and other payables

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

Leases

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

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

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

Employee entitlements

Wages and salaries and annual leave

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

Short-term incentive plans

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

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

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

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

3.5 NET TANGIBLE ASSETS

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

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

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

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

4.0 CAPITAL MANAGEMENT

4.1 SHARE CAPITAL

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

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

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

4.2 RESERVES

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

4.2.1 Nature and purpose of reserves

Share based payments reserve

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

Asset revaluation reserve

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

Foreign currency translation reserve

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

Transactions with non-controlling interests reserve

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

4.3 SHARE BASED PAYMENTS

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

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

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

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

4.3.1 Background

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

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

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

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

Performance measures

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

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

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

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

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

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

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

4.3.2 Model inputs

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

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

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

Accounting policies

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

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

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

Total incentive plan (TIP) (post-Demerger)

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

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

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

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

4.4 DIVIDENDS

4.4.1 Dividends paid

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

4.4.2 Dividends declared after balance date

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

4.4.3 Franking and imputation credits

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

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

4.5 INTEREST BEARING LIABILITIES

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

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

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

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

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

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

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

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

Accounting policies

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

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

4.6 COMMITMENTS

4.6.1 Lease commitments

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

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

4.7 CASH FLOW INFORMATION

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

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

4.8 FINANCIAL RISK MANAGEMENT

4.8.1 Capital and Risk Management

The Group's objectives when managing capital are to:

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

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

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

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

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

4.8.2 Market risk

(a) Cash flow and fair value interest rate risk

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

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

(b) Foreign exchange risk

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

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

(c) Price risk

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

4.8.3 Credit Risk

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

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

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

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

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

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

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

4.8.4 Liquidity risk

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

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

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

4.9 FAIR VALUE MEASUREMENT

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

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

4.9.1 Fair value hierarchy

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

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

4.9.2 Recognised fair value measurements

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

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

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

4.9.3 Disclosed fair values

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

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

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

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

Recurring fair value measurements

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

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

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

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

5.0 TAXATION

5.1 INCOME TAX

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

5.2 DEFERRED TAX

Deferred tax assets and liabilities are attributable to:

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

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

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

5.3 IRD SETTLEMENT

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

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

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

Accounting policies

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

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

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

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

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

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

6.0 GROUP STRUCTURE AND INVESTMENTS IN OTHER ENTITIES

6.1 NZME DEMERGER FROM APN

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

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

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

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

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

Broadly, the Internal Restructure entailed the following:

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

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

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

Acquisition of businesses

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

Disposal of businesses

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

Asset acquisition

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

6.1.1 Business disposed – discontinued operations

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

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

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

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

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

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

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

Footnote on the next page.

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

Carrying value of net assets derecognised

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

Accounting policies

Discontinued operations and assets held for sale

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

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

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

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

6.1.2 Businesses and net assets acquired

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

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

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

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

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

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

6.1.3 Net cash flow

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

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

Accounting policies

Common control transactions

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

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

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

6.2 BUSINESS COMBINATION

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

6.3 CONTROLLED ENTITIES

Significant judgement

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

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

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

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

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

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

6.4 INTERESTS IN OTHER ENTITIES

6.4.1 Material subsidiaries with non-controlling interests

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

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

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

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

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

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

6.4.2 Associates, joint ventures and joint operations

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

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

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

Accounting policies

Associates

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

Joint arrangements

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

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

Equity method of accounting

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

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

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

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

6.4.3 Other financial assets

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

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

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

7.1 RELATED PARTIES

7.1.1 Key management compensation

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

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

7.1.2 Transactions with other related parties

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

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

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

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

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

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

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

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

7.2 CONTINGENT LIABILITIES

7.2.1 Claims

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

7.3 SUBSEQUENT EVENTS

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

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

7.4 NEW STANDARDS AND INTERPRETATIONS ADOPTED IN THE CURRENT YEAR

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

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

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

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

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

7.5 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

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

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

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

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

Independent auditor's report

To the shareholders of NZME Limited

The consolidated financial statements comprise:

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

Our opinion

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

Basis for opinion

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

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

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

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

Our audit approach

Overview

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

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

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

Our key audit matters are:

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

Materiality

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

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

Audit scope

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

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

Key audit matters

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

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

Key audit matter

Impairment testing of intangible assets

As outlined in note 3.1, total non-amortising intangible assets, including goodwill ($70.8m), masthead brands ($147.0m), and brands ($59.1m) have a carrying value of $276.8m at 31 December 2016 and represent 57% of total assets.

Management utilised a value in use methodology to determine the value of the business using discounted cash flows and performed an impairment assessment of the goodwill and non-amortising intangible assets. This assessment is complex in nature and includes key estimates and assumptions made by management, particularly in the following areas:

- The assessment of cash generating units (CGUs) – management have determined that the NZME business constitutes one CGU.
- Expected future trading results – management have based these on budgets and forecasts which have been approved by the Board of Directors.
- The weighted average cost of capital used as the discount rate in the model – management have applied a rate of 9.5%.
- The expected long term growth rate – management have applied a rate of 0%.
- Considering sensitivity by determining and forecasting other reasonably possible scenarios and assessing the impact on the valuation of these scenarios.

In their assessment management determined that the model was most sensitive to the ratio of growth in digital revenue as compared to the decline in print revenue.

The impairment assessment completed by management for 2016 calculated the value of the business as higher than the carrying value of applicable net assets and no impairment was identified.

How our audit addressed the key audit matter

We considered management's identification of cash generating units by gaining an understanding of the business, how it is managed, and how the results are reported to management and the directors.

We tested the calculation of the valuation model including the inputs and mathematical accuracy of the model and comparison to the relevant net assets value of the Group.

We also assessed key estimates and assumptions made by management. Our audit procedures included the following:

- We gained an understanding of the business process applied by management in determining whether there are any indicators of impairment in the value of goodwill and non-amortising intangible assets.
- We agreed the future cash flows included in management's model to the budgets and forecasts approved by the Board of Directors.
- We considered the reasonableness of key assumptions in the cash flow forecasts, in particular revenue growth and the profile of print and digital revenues, forecast margins and terminal growth rates. We considered these with reference to historic performance of the Group, key initiatives being undertaken and comparison to results of comparable companies and available broker reports.
- We engaged an independent expert to recalculate the weighted average cost of capital used as the discount rate in the model and determined that the rate used by management was within a reasonable range.
- We considered management's sensitivity analysis and in particular the assumptions associated with digital and print revenues. For each of the scenarios we tested the mathematical accuracy of the model, the changes made, and the impact of those changes on the valuation.

We reviewed the disclosure in the financial statements to ensure that this is compliant with the requirements of NZ accounting standards.

Information other than the financial statements and auditor's report

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

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

Responsibilities of the Directors for the consolidated financial statements

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

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

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

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

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

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

This description forms part of our auditor's report.

Who we report to

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

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

For and on behalf of:

PricewaterhouseCoopers.

Chartered Accountants
23 February 2017

Auckland