

---

# **CONSOLIDATED FINANCIAL STATEMENTS**

**NZME Limited**

FOR THE YEAR ENDED 31 DECEMBER 2018

# CONTENTS

## Consolidated Financial Statements

for the year ended 31 December 2018

Directors' Statement	3
Consolidated Income Statement	4
Consolidated Statement of Comprehensive Income	5
Consolidated Balance Sheet	6
Consolidated Statement of Changes in Equity	7
Consolidated Statement of Cash Flows	8
Notes to the Consolidated Financial Statements*	
Basis of Preparation	9
Group Performance	12
Operating Assets & Liabilities	22
Capital Management	32
Taxation	48
Group Structure and Investments in Other Entities	51
Other Notes	56
Independent Auditor's Report	58

\* In an attempt to make these financial statements easier to read, the notes to the financial statements have been grouped into seven sections; aimed at grouping items of a similar nature together. The Basis of Preparation section presents a summary of material information and general accounting policies that are necessary to understand the basis on which these consolidated financial statements have been prepared. Accounting policies specific to a particular note are included in that note and are shaded for ease of reference. Key judgments and estimates relevant to a particular note are also included in the relevant note, and are clearly marked as such. A summary of the key judgments and estimates is also included under the Basis of Preparation section on pages 9 to 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 2018, incorporating the consolidated financial statements and the auditor's report.

The directors are responsible, on behalf of the Company, for presenting these consolidated financial statements in accordance with applicable New Zealand legislation and generally acceptable accounting practices in New Zealand in order to present consolidated financial statements that present fairly, in all material respects, the financial position of the Group as at 31 December 2018 and the results of the Group's operations and cash flows for the year.

The consolidated financial statements for the Group as presented on pages 4 to 57 are signed on behalf of the Board of Directors, and are authorised for issue on the date below.

For and on behalf of the Board of Directors



**Peter Cullinane**  
Director



**Carol Campbell**  
Director

**Date: 18 February 2019**

# CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2018

	Note	2018 \$'000	2017 \$'000
Revenue	2.1	388,269	390,688
Finance and other income	2.1	769	926
<b>Total revenue and other income</b>	2.1	<b>389,038</b>	391,614
Expenses from operations before finance costs, depreciation, amortisation	2.2.1	(343,459)	(332,839)
Depreciation & amortisation	2.2.2	(24,555)	(24,946)
Finance costs	2.2.3	(4,636)	(4,497)
<b>Profit / (loss) from continuing operations before income tax expense</b>		<b>16,388</b>	29,332
Income tax expense	5.1	(4,816)	(8,447)
<b>Profit for the year</b>		<b>11,572</b>	20,885
<b>Profit for the year is attributable to:</b>			
Owners of the Company		11,735	20,885
Non-controlling interests		(163)	-
<b>Profit for the year</b>		<b>11,572</b>	20,885
		<b>Cents</b>	<b>Cents</b>
<b>Earnings per share attributable to the ordinary shareholders of the Company</b>			
Basic / diluted earnings per share	2.3	6.0	10.7

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

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2018

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

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

# CONSOLIDATED BALANCE SHEET

as at 31 December 2018

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

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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2018

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

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

# CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2018

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

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



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1.0 BASIS OF PREPARATION

### 1.1 REPORTING ENTITY AND STATUTORY BASE

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

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

### 1.2 GENERAL ACCOUNTING POLICIES

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

The principal accounting policies adopted in the preparation of the financial statements are either set out below, or in the relevant note. These policies have been consistently applied to all the years presented, unless otherwise stated. These consolidated financial statements are presented for the Group and were approved for issue by the Board of Directors on 18 February 2019.

#### 1.2.1 Basis of measurement

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

#### 1.2.2 Comparatives

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

#### 1.2.3 Foreign currency translation

##### **Functional and presentation currency**

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

#### 1.2.4 Goods and Services Tax ('GST')

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1.3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

## 1.4 SIGNIFICANT CHANGES

### 1.4.1 Proposed Merger with Stuff Limited

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1.5 NEW STANDARDS AND INTERPRETATIONS ADOPTED IN THE CURRENT PERIOD

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

## 1.6 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

NZ IFRS 16 *Leases* replaces NZ IAS 17 and is effective for the period commencing 1 January 2019. It requires a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. Included is an optional exemption for certain short-term leases and leases of low-value assets. Work has been undertaken to review all of the lease commitments of NZME to determine the impact NZ IFRS 16 will have on EBITDA. Currently we believe that the Group EBITDA will increase by between \$16 million to \$18 million when the standard is adopted as the leased assets are transferred to the balance sheet and interest and depreciation replaces the current operating lease expense.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2.0 GROUP PERFORMANCE

### 2.1 DISAGGREGATION OF REVENUE AND OTHER INCOME

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2.1.1 Impact of NZ IFRS 15 adoption

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

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

### Accounting policies

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

#### Advertising

The Group operates an integrated media and entertainment business and contracts with customers to provide advertising on multiple platforms consisting of a series of distinct services that are substantially the same. Advertising is often bundled to include print, radio and/or digital components. In most cases each component of the bundle is treated as a distinct performance obligation and the transaction price is allocated on a relative stand-alone selling price basis. Experiential campaigns are a type of bundling focused on providing an experience utilising a mix of traditional advertising mediums with bespoke elements like competitions, product sampling, street performances etc. These activities are highly integrated and inter-dependent and are therefore a single performance obligation with revenue recognised over the period of the campaign. These campaigns often include elements that are provided by external parties and the Group acts as the principal in those instances. These campaigns are typically run over a short period of time and are typically completed and billed for in the same reporting or billing period. Where the Group provides advertising for non-cash consideration, revenue is recognised at the fair value of the consideration received, unless the Group cannot reasonably estimate the fair value of the non-cash consideration; in which case revenue is recognised by reference to the stand-alone selling price of the advertising promised to the customer. When advertising is exchanged for advertising, revenue is recognised on a gross basis as set out above.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## *Subscriptions*

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

## *Circulation*

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

## *External printing and distribution*

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

## *e-Commerce (GrabOne)*

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

## *Shared services centre*

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

## *Deferred revenue*

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## *Significant financing component*

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

## *Incremental cost of obtaining a contract*

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

## *Costs to fulfil a contract*

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2.2 EXPENSES

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



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

- A Includes the fee for both the audit of the annual financial statements and the independent review of the interim financial statements.
- B Includes regulatory and other assurance services, including New Zealand circulations and payroll assurance.
- C Includes services relating to transactional advice, tax compliance services.
- D Includes Treasury advisory services in 2018 and due diligence and advisory services relating to the proposed merger with Stuff Limited in 2017.

## 2.3 EARNINGS PER SHARE

**Significant judgment:** Under the Group's Total Incentive Plan ("TIP") as discussed in Note 4.3, Performance Rights were issued to certain participating employees that, for the 2017 TIP, will at the discretion of the Board either convert into fully paid ordinary shares or be settled in cash; and for the 2016 TIP, will convert into fully paid ordinary shares. Under the TIP, where Performance Rights are settled in shares, the Company would either repurchase those shares from the market or issue new shares. Any new shares issued would have a dilutive effect on the Earnings Per Share calculations noted below. It is currently the intention of the Company to either repurchase shares from the market or settle the rights in cash and not to issue new shares.

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

	2018 Number	2017 Number
<b>Weighted average number of shares</b>		
Weighted average number of shares in the denominator in calculating basic EPS	196,011,282	196,011,282
Adjusted for calculation of diluted EPS	-	-
<b>Weighted average number of shares in the denominator in calculating diluted EPS</b>	<b>196,011,282</b>	196,011,282

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## Accounting policies

### *Basic earnings per share*

Basic earnings per share is determined by dividing:

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

### *Diluted earnings per share*

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

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

(Note that there are no dilutive potential ordinary shares in 2018 (2017: nil))

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2.4 SEGMENT INFORMATION

### 2.4.1 Determination and description of segments

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2.4.2 Segment revenues and results

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

- <sup>A</sup> Adjusted Earnings before Interest, Tax, Depreciation and Amortisation (Adjusted EBITDA) from continuing operations which excludes exceptional items, is a non-GAAP measure that represents the Group's total segment result which is regularly monitored by the Chief Operating Decision Maker. Exceptional items are those gains, losses, income and expense items that are not directly related to the primary business activities of the Group which are determined in accordance with the NZME Exceptional Items Recognition Framework adopted by the Audit & Risk Committee. Exceptional items include redundancies, impairment, one-off projects and the disposal of properties or businesses. These items are excluded from the segment result that is regularly reviewed by the Chief Operating Decision Maker.
- <sup>B</sup> Loss on disposal of properties is the final adjustment on Greymouth land in 2018 and the loss on sale of land in Ouruhia and Greymouth in 2017.
- <sup>C</sup> The redundancies and associated costs relate to the restructuring and integration of the New Zealand operations.
- <sup>D</sup> 2018 costs relate to the provision for historical pay adjustments, residual costs in relation to the Stuff Limited merger appeal and one off project costs. 2017 costs primarily relate to external consultants assisting with the proposed merger with Stuff Limited and the continuing integration and co-location of NZME.
- <sup>E</sup> Impairment costs are in relation to the investment in Ratebroker (see note 6.3.2).

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3.0 OPERATING ASSETS & LIABILITIES

### 3.1 INTANGIBLE ASSETS

**Significant judgment:** The Directors have determined that masthead brands and brands have indefinite lives and are therefore not amortised. Refer to the accounting policies below for further information.

	Goodwill \$'000	Software \$'000	Masthead Brands \$'000	Radio Licences \$'000	Brands \$'000	Total \$'000
<b>As at 1 January 2017</b>						
Cost	166,397	49,309	146,976	77,457	59,079	<b>499,218</b>
Accumulated amortisation and impairment	(95,614)	(38,439)	-	(35,389)	-	<b>(169,442)</b>
<b>Net book value</b>	<b>70,783</b>	<b>10,870</b>	<b>146,976</b>	<b>42,068</b>	<b>59,079</b>	<b>329,776</b>
<b>For the year ended 31 December 2017</b>						
Opening net book amount	70,783	10,870	146,976	42,068	59,079	<b>329,776</b>
Additions	-	1,932	-	90	-	<b>2,022</b>
Disposals	-	-	-	-	-	<b>-</b>
Amortisation	-	(6,434)	-	(2,953)	-	<b>(9,387)</b>
Transfers from capitalised work in progress	-	8,142	-	-	-	<b>8,142</b>
<b>Net book value</b>	<b>70,783</b>	<b>14,510</b>	<b>146,976</b>	<b>39,205</b>	<b>59,079</b>	<b>330,553</b>
<b>As at 31 December 2017</b>						
Cost	166,397	59,384	146,976	77,547	59,079	<b>509,383</b>
Accumulated amortisation and impairment	(95,614)	(44,874)	-	(38,342)	-	<b>(178,830)</b>
<b>Net book value</b>	<b>70,783</b>	<b>14,510</b>	<b>146,976</b>	<b>39,205</b>	<b>59,079</b>	<b>330,553</b>
<b>For the year ended 31 December 2018</b>						
Opening net book amount	70,783	14,510	146,976	39,205	59,079	<b>330,553</b>
Additions	-	2,103	-	-	-	<b>2,103</b>
Disposals	-	-	-	-	-	<b>-</b>
Amortisation	-	(6,935)	-	(2,956)	-	<b>(9,891)</b>
Transfers from capitalised work in progress	-	7,146	-	-	-	<b>7,146</b>
<b>Net book value</b>	<b>70,783</b>	<b>16,824</b>	<b>146,976</b>	<b>36,249</b>	<b>59,079</b>	<b>329,911</b>
<b>As at 31 December 2018</b>						
Cost	166,397	68,633	146,976	77,547	59,079	<b>518,632</b>
Accumulated amortisation and impairment	(95,614)	(51,809)	-	(41,298)	-	<b>(188,721)</b>
<b>Net book value</b>	<b>70,783</b>	<b>16,824</b>	<b>146,976</b>	<b>36,249</b>	<b>59,079</b>	<b>329,911</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## Accounting policies

### *Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired business at the date of the acquisition. Goodwill is not amortised but rather is subject to periodic impairment testing (refer to note 3.1.1 below).

### *Software*

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

### *Radio licences*

Commercial radio licences are accounted for as identifiable assets and are initially recognised at cost. The current New Zealand radio licences expire on 31 March 2031 and are being amortised on a straight line basis to that date.

### *Masthead brands*

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

### *Brands*

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

## 3.1.1 Year-end impairment review

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

A comprehensive impairment review was conducted at 31 December 2018. The recoverable amount of the CGU (which includes goodwill and indefinite life intangible assets) is determined based on the higher of fair value less costs to sell and value in use calculations using management budgets and forecasts. The recoverable amount of the CGU is compared against the carrying value of the CGU to determine whether there has been impairment.

## Key estimates and assumptions

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

### Forecast prepared over the forecast period (2019 – 2023)

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

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

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

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



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3.1.2 Impact of reasonably possible change in key assumptions

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

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

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

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

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

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

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

### Accounting policy

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3.2 PROPERTY, PLANT AND EQUIPMENT

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

<sup>A</sup> Freehold land and buildings include leasehold improvements with a net book value of \$8,311,993 (2017: \$9,901,993) carried at cost. All other freehold land and buildings are held at fair value based on independent valuations. If land and buildings were stated on the historical cost basis, the net book value of land would have been \$442,270 (2017: \$442,270) and the net book value of buildings would have been \$327,038 (2017: \$336,973). The last revaluation was performed for the year ended 31 December 2015.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3.2.1 Capital work in progress

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

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

### Accounting policies

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

- Furniture and fittings
- Buildings
- Leasehold improvements
- Motor vehicles
- Plant & equipment
- 3 to 25 years
- 10 to 50 years
- 2.5 to 50 years
- 5 to 10 years
- 1.5 to 25 years

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## *Impairment of assets*

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

## 3.3 TRADE AND OTHER RECEIVABLES

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3.3.1 Classification

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

## 3.3.2 Fair values of trade and other receivables

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

## 3.3.3 Impairment and risk exposure

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

### Accounting policies

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3.4 TRADE AND OTHER PAYABLES

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

<sup>A</sup> Lease liability includes lease incentives received on operating leases.

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

### Accounting policies

#### Trade and other payables

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

#### Leases

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## *Employee entitlements*

### a) Wages and salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be wholly settled within 12 months from the reporting date are recognised in payables and accruals in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

Amounts to be settled more than 12 months after the reporting date are recognised as a non-current payable.

Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

### b) Short-term incentive plans

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

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

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

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

## 3.5 NET TANGIBLE ASSETS

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 4.0 CAPITAL MANAGEMENT

### 4.1 SHARE CAPITAL

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

#### Accounting policy

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

### 4.2 RESERVES

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



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 4.2.1 Nature and purpose of reserves

### *Share based payments reserve*

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

### *Asset revaluation reserve*

The asset revaluation reserve is used to record increments and decrements on the revaluation of non-current assets, as described in note 3.2. In the event of the sale of an asset, the revaluation surplus is transferred to retained earnings.

### *Foreign currency translation reserve*

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

### *Transactions with non-controlling interests reserve*

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

## 4.3 SHARE BASED PAYMENTS

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

- <sup>A</sup> Included in the number of rights granted for the year ended 31 December 2017 are 70,236 rights granted at a price of \$0.58 per right relating to the 2016 TIP based on the final number of rights approved by the Board in March 2017. Under the 2016 Plan, the participants will be entitled to additional shares (not reflected in the rights above) when the rights are exercised (on 31 December 2019) for any dividends foregone during the period 1 January 2017 to 31 December 2019. For dividends declared during the period 1 January 2018 to 31 December 2018, this will result in an additional 81,568 shares being issued to the participants (2017: 96,862).
- <sup>B</sup> The number of shares granted in 2017 in respect of the 2017 TIP was an estimate based on information available at the time the Financial Statements were prepared. In 2018 the actual shares to be granted were determined with the sum being lower than originally calculated.
- <sup>C</sup> Two participants in the 2016 TIP departed in 2017 prior to the completion of the Service Period and forfeited their rights under the 2016 TIP.

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 4.3.1 Background

### *Total incentive plan ("TIP")*

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

## 4.3.2 2018 TIP

No TIP has been offered for the 2018 Financial Year.

## 4.3.3 2017 TIP

### *Performance measures*

- Financial performance conditions (50%): Performance will be measured against earnings before interest, tax, depreciation and amortisation ("EBITDA"). This portion is determined based on actual EBITDA against budgeted EBITDA on the following scale:

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

The performance period for the 2017 awards is a twelve month period which commenced on 1 January 2017. Subject to remaining employed by the Company for a further one year period following the performance period ("service period"), rights will vest. The vested rights cannot be exercised for a further two years ("deferral period"). Vested rights will automatically convert into ordinary shares for nil consideration at the end of the deferral period without the requirement for the participant to exercise their rights. At the discretion of the Board, validly exercised rights may be satisfied in cash, rather than in shares. Participants are not entitled to receive any dividends for the rights they hold, but the Board may, at its sole discretion, allocate shares or make a cash payment to participants equal to the value of dividends that were payable whilst holding the unvested and / or vested rights. The Company may reduce unvested equity awards in certain circumstances such as gross misconduct, material misstatement or fraud. The Board may also reduce unvested awards to recover amounts where performance that led to payments being awarded is later determined to have been incorrectly measured or not sustained. Awards are normally forfeited if the participant leaves before the end of the performance period, except in limited circumstances that are approved by the Board on a case-by-case basis. If a participant leaves during the service period, the rights that will vest will be determined on a pro-rata basis based on when they leave during the service period. If a participant leaves during the deferral period, no rights will be forfeited, but rights will still only convert into ordinary shares at the end of the deferral period.

The fair value of the rights at grant date was estimated based on the NZME share price as at 25 September 2017, being the date after the Board approved the TIP and the terms were communicated to the eligible participants. The number of rights awarded are based on the Volume Weighted Average Price ("VWAP") of the Company's shares for the first 5 trading days of the Performance Period.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## Model inputs

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

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

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

## 4.3.4 2016 TIP

### Performance measures

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

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

- Non-financial performance conditions (25%) : Performance will be measured against specific measures, as determined for each participant at the commencement of the performance period.
- Awards under the TIP are granted to participants following the assessment of performance. To the extent that performance measures are met:
  - 50% of awards are made in cash; and
  - 50% of awards are granted in rights to acquire fully paid ordinary shares in the Company for nil consideration ("Rights").

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

The fair value of the rights at grant date was estimated based on the NZME share price as at 20 December 2016, being the date after the Board approved the TIP and the terms were communicated to the eligible participants. The number of rights awarded are based on the Volume Weighted Average Price ("VWAP") of the Company's shares for the first 5 trading days of the performance period.

## *Model inputs*

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## Accounting policies

### *Total incentive plan (TIP)*

The fair value of rights granted under the TIP plan is recognised as an employee benefits expense with a corresponding increase in equity over the vesting period, being the performance period and the service period. The fair value is measured at grant date and the number of rights are determined using the volume weighted average price of NZME's shares on the NZX over the first 5 trading days of the performance period.

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

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

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

## 4.4 DIVIDENDS

### 4.4.1 Dividends paid

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

### 4.4.1 Dividends declared after balance date

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 4.4.3 Franking and imputation credits

	2018 \$'000	2017 \$'000
Imputation credits available for subsequent reporting periods based on the New Zealand 28% tax rate for the Group	<b>NZ\$ 8,259</b>	NZ\$ 8,519
Franking credits available to the Company for subsequent reporting periods based on the Australian 30% tax rate for the Group	<b>AU\$ 0<sup>A</sup></b>	AU\$ 0 <sup>A</sup>

<sup>A</sup> Although the Company does not have any franking credits available for use, other entities within the Group have AU\$10,828,676 (2017: AU\$10,828,676) available that might become available to the Company in future periods.

## 4.5 Interest bearing liabilities

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

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

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

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

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



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## Accounting policies

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

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

## 4.6 COMMITMENTS

### 4.6.1 Lease commitments

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

	2018 \$'000	2017 \$'000
<b>Commitments for minimum lease payments in relation to rental commitments contracted for at the reporting date and not recognised as liabilities, payable:</b>		
Not later than one year	<b>16,332</b>	16,389
Later than one year but not later than five years	<b>55,014</b>	48,973
Later than five years	<b>55,336</b>	62,185
<b>Commitments not recognised in the financial statements</b>	<b>126,682</b>	127,547

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 4.7 CASH FLOW INFORMATION

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

### Accounting policy

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 4.8 FINANCIAL RISK MANAGEMENT

### 4.8.1 Capital and risk management

The Group's objectives when managing capital are to:

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

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

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

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

Financial risk management is carried out by the Group Treasury function. The Group Treasury function meet regularly with the Group CFO to cover specific areas, such as interest rate risk and credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity. Due to the Group's limited operations in foreign jurisdictions, the Group does not have a significant foreign exchange exposure.

### 4.8.2 Market risk

#### *Cash flow and fair value interest rate risk*

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

Based on the outstanding net floating debt at 31 December 2018, a change in interest rates of +/-1% per annum with all other variables being constant would impact post-tax profit and equity by \$1.1 million lower / higher (2017: \$1.0 million lower/higher).

#### *Price risk*

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 4.8.3 Credit risk

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

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

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

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

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

As of 31 December 2018, trade receivables of \$4,501,000 (2017: \$3,375,000) were past due but not impaired.

The maximum exposure to credit risk at 31 December 2018 is equal to the carrying amount of cash and cash equivalents and trade and other receivables. The Group is not exposed to any concentrations of credit risk within cash and cash equivalents or trade and other receivables.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 4.8.4 Liquidity risk

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

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

	Less than one year \$'000	Between one and two years \$'000	Between two and five years \$'000	Over five years \$'000
<b>31 December 2018</b>				
Trade payables and accruals	43,112	-	-	-
Bank loans	4,193	4,193	114,693	-
Gross liability	47,305	4,193	114,693	-
Less: interest	(4,193)	(4,193)	(4,193)	-
<b>Total financial liabilities</b>	<b>43,112</b>	<b>-</b>	<b>110,500</b>	<b>-</b>
<b>31 December 2017</b>				
Trade payables and accruals	47,656	-	-	-
Bank loans	4,022	4,022	104,022	-
Gross liability	51,678	4,022	104,022	-
Less: interest	(4,022)	(4,022)	(4,022)	-
<b>Total financial liabilities</b>	<b>47,656</b>	<b>-</b>	<b>100,000</b>	<b>-</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 4.9 FAIR VALUE MEASUREMENT

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

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

### 4.9.1 Fair value hierarchy

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

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

### 4.9.2 Recognised fair value measurements

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 4.9.3 Disclosed fair values

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

The carrying amounts of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. There are no outstanding non-current receivables as at 31 December 2018 or 31 December 2017 (level 3).

The fair value of interest bearing liabilities disclosed in note 4.5 is estimated by discounting the future contractual cash flows at the current market interest rates that are available to the group for similar financial instruments. For the period ending 31 December 2018, the borrowing rates were determined to be between 3.3% and 4.5% (2017: between 3.3% and 4%), depending on the type of borrowing. The fair value of borrowings approximates the carrying amount, as the impact of discounting is not significant (level 2).

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

### *Recurring fair value measurements*

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

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 5.0 TAXATION

### 5.1 INCOME TAX

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



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 5.2 DEFERRED TAX

Deferred tax assets and liabilities are attributable to:

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

There are unrecognised tax losses of \$1,835,141 (AUD1,744,812) (2017: \$1,917,077 (AUD1,744,812)) in an Australian subsidiary of the Company which have not been recognised as there is uncertainty as to their future recoverability. The deferred tax asset on these losses was not offset against the deferred tax liabilities of the rest of the Group because they are levied by a different tax authority.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## Accounting policies

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

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

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 6.0 GROUP STRUCTURE AND INVESTMENTS IN OTHER ENTITIES

### 6.1 CONTROLLED ENTITIES

The consolidated financial statements incorporate the assets, liabilities and results of the subsidiaries listed below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the Group, and the proportion of ownership interest held equals the voting rights held by the Group. All entities are incorporated in, and operate in, New Zealand unless otherwise stated. There were no changes in control during the year ended 31 December 2018.

	2018 Ownership interest	2017 Ownership interest
<b>Name of entity</b>		
Adhub Limited <sup>c</sup>	N/A	100%
ESKY Limited <sup>c</sup>	N/A	100%
Grabone Limited	100%	100%
Idea HQ Limited <sup>c</sup>	N/A	100%
Mt Maunganui Publishing Co Limited <sup>c</sup>	N/A	100%
NZME 2014 Limited <sup>c</sup>	N/A	100%
NZME Australia Pty Limited <sup>a</sup>	100%	100%
NZME Digital Limited <sup>c</sup>	N/A	100%
NZME Educational Media Limited	100%	100%
NZME Finance Limited <sup>c</sup>	N/A	100%
NZME Holdings Limited	100%	100%
NZME Investments Limited	100%	100%
NZME Online Limited <sup>c</sup>	N/A	100%
NZME Print Limited	100%	100%
NZME Publishing Limited	100%	100%
NZME Radio Investments Limited	100%	100%
NZME Radio Limited <sup>b</sup>	100%	100%
NZME Specialist Limited	100%	100%
NZME Trading Limited <sup>c</sup>	N/A	100%
Regional Publishers Limited <sup>c</sup>	N/A	100%
Sell Me Free Limited <sup>c</sup>	N/A	100%
Sella Limited <sup>c</sup>	N/A	100%
Stanley Newcomb & Co Limited <sup>c</sup>	N/A	100%
The Hive Online Limited	100%	100%
New Zealand Radio Network Limited	100%	100%
The Radio Bureau Limited	100%	100%
Trade Debts Collecting Co Limited <sup>c</sup>	N/A	100%
W & H Interactive Limited <sup>c</sup>	N/A	100%
OneRoof Limited <sup>d</sup>	80%	N/A

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

- <sup>A</sup> Incorporated in, and operates in, Australia.
- <sup>B</sup> One "Kiwi Share" held by the Minister of Finance. The rights and obligations are set out in the NZME Radio constitution.
- <sup>C</sup> Effective 31 May 2018, these entities were amalgamated into NZME Specialist Limited.
- <sup>D</sup> OneRoof Limited was incorporated on 20 March 2018. On 21 August, the Group transferred 20% of the share capital in OneRoof Limited to Hougarden.com Limited as consideration for the final payment of \$1.1 million for the acquisition of the platform on which the OneRoof website and related apps are built. The acquisition of the platform has been treated as an asset acquisition and the subsequent issue of shares has been accounted for as an equity settled share-based payment transaction valued at the fair value of the asset received.

## Accounting policies

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 6.2 INTERESTS IN OTHER ENTITIES

### 6.2.1 Associates, joint ventures and joint operations

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

	2018 Ownership interest	2017 Ownership interest
<b>Name of entity</b>		
Chinese New Zealand Herald Limited <sup>A</sup>	<b>50%</b>	50%
Eveve New Zealand Limited <sup>A</sup>	<b>40%</b>	40%
KPEX Limited <sup>A</sup>	<b>25%</b>	25%
New Zealand Press Association Limited <sup>A</sup>	<b>38.82%</b>	38.82%
Restaurant Hub Limited <sup>A</sup>	<b>40%</b>	40%
The Beacon Printing & Publishing Company Limited <sup>A</sup>	<b>21%</b>	21%
The Gisborne Herald Company Limited (held through Essex Castle Limited as a trust company for NZME Publishing Limited) <sup>A</sup>	<b>49%</b>	49%
The Radio Bureau <sup>B</sup>	<b>50%</b>	50%
The Wairoa Star Limited <sup>A</sup>	<b>40.41%</b>	40.41%
Ratebroker Limited <sup>D</sup>	<b>50%</b>	20%
The Newspaper Publishers Association of New Zealand Incorporated <sup>C</sup>		
Online Media Standards Authority Incorporated <sup>C</sup>		
New Zealand Press Council <sup>C</sup>		
Radio Broadcasters Association Incorporated <sup>C</sup>		

<sup>A</sup> These entities are classified as joint ventures or associates. Because the effects of equity accounting are immaterial, these investments are carried at cost (refer note 6.3.2).

<sup>B</sup> 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.

<sup>C</sup> These are bodies with which entities in the Group have memberships, but no ownership interest.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## Accounting policies

### *Associates*

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

### *Joint arrangements*

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

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

Where the impact of the equity method of accounting is material, interests in material joint ventures are accounted for using the equity method (see below) after initially being recognised at cost in the consolidated balance sheet.

### *Equity method of accounting*

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

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

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

The carrying amount of equity-accounted investments is tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Where the effects of equity accounting are immaterial, investments are carried at cost.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 6.3.2 Other financial assets

	2018 \$'000	2017 \$'000
Shares in other corporations	3,788	5,988
<b>Total other financial assets</b>	<b>3,788</b>	<b>5,988</b>

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

NZME has written off its investment in Ratebroker Limited.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 7.0 OTHER NOTES

### 7.1 RELATED PARTIES

#### 7.1.1 Key management compensation

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

The table above includes remuneration of the Board of Directors and the Executive Team, including amounts paid to members of the Executive Team who left during the year. Where a staff member was acting in a position on the Executive Team, that portion of their remuneration has been included in the table above.

#### 7.1.2 Other transactions with related parties

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

In November 2015, the Company, Fairfax Media, TVNZ and MediaWorks launched a new local advertising exchange service, KPEX Limited, offering media agencies and clients a programmatic option for purchasing online advertising. The group received advertising revenue of \$2,571,450 (2017: \$2,768,773) and paid commission of \$306,342 (2017: \$412,931).

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



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 7.2 CONTINGENT LIABILITIES

### 7.2.1 Claims

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

## 7.3 SUBSEQUENT EVENTS

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



## ***Independent auditor's report***

To the shareholders of NZME Limited

We have audited the consolidated financial statements which comprise:

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

### ***Our opinion***

In our opinion, the accompanying consolidated financial statements of NZME Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 31 December 2018, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

---

### ***Basis for opinion***

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

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

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

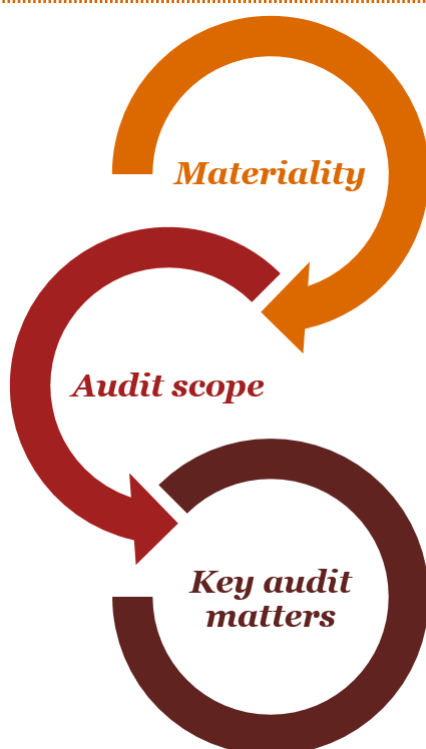
Our firm carries out other services for the Group in the areas of taxation compliance and taxation advisory services, advisory services in connection with treasury policy, and other assurance services including circulation and payroll assurance services. The provision of these other services has not impaired our independence as auditor of the Group.

---

## *Our audit approach*

### *Overview*

---



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

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

We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. We have adjusted this benchmark for exceptional expenses (refer to note 2.4.2) to reduce volatility and to reflect the underlying performance of the Group.

We have determined that there is one key audit matter being the impairment testing of intangible assets.

---

### *Materiality*

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

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

### *Audit scope*

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

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

### *Key audit matters*

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

Key audit matter	How our audit addressed the key audit matter
<p><i>Impairment testing of intangible assets</i></p> <p>As outlined in note 3.1, total non-amortising intangible assets, including goodwill (\$70.8 million), masthead brands (\$147.0 million), and brands (\$59.1 million) have a combined carrying value of \$276.9 million at 31 December 2018 and represent 60% of the total assets of the Group.</p> <p>In completing the annual impairment assessment, the recoverable amount of the CGU, being the higher of its value in use and its fair value less costs of disposal ('FVLCD'), is calculated and compared with the relevant net assets of the Group. Management utilised a value in use model reflecting the strategic direction of NZME to determine the value of the business using discounted cash flows. Management considered the reasons for the lower recoverable amount if it were determined on a FVLCD basis, as indicated by the market capitalisation of NZME at balance date and engaged a third party expert to assist in validating their assessment of the recoverable amount.</p> <p>The impairment assessment is complex in nature and includes key estimates and assumptions made by management, particularly in the following areas:</p> <ul style="list-style-type: none"> <li>• The assessment that the NZME business constitutes one CGU.</li> <li>• The expected future trading results of the business which are based on budget for 2019 and the forecasts for the following four years which have been approved by the Board of Directors.</li> <li>• The weighted average cost of capital of 9.5% used as the discount rate in the model.</li> <li>• The application of a 0% long term growth rate for the purposes of impairment testing.</li> <li>• Considering sensitivity by determining other reasonably possible scenarios and assessing the impact on the valuation of these scenarios.</li> </ul> <p>The impairment assessment completed by management calculated the recoverable amount of the business as higher than the carrying value of applicable net assets and no impairment was identified.</p> <p>In their sensitivity analysis management identified that there were assumptions for</p>	<p>We gained an understanding of the strategic objectives of the business to assess the appropriateness of using a value in use model. We also gained an understanding of how the business is managed and how the results are reported to management and the Directors in order to understand management's determination that NZME constitutes one CGU.</p> <p>We gained an understanding of the business process and controls applied by management in their impairment assessment. We considered the factors identified by management as contributing to the difference between the market capitalisation of the Group and the carrying value of net assets, and we reviewed the third party expert's report obtained by management to assist in validating key judgements.</p> <p>We tested the accuracy of the calculations in the value in use model by reperforming the calculation of the recoverable amount of the business, based on the same estimates and assumptions used by management. We then agreed the relevant net assets of the Group to the audited carrying values.</p> <p>We also assessed key estimates and assumptions made by management. Our audit procedures included the following:</p> <ul style="list-style-type: none"> <li>• We agreed the future cash flows included in management's model to the budgets and forecasts approved by the Board of Directors.</li> <li>• We considered the reasonableness of key assumptions in the cash flow forecasts, in particular revenue growth for each channel, forecast expenses and the terminal growth rate. This was done with reference to the historical performance of the Group, key initiatives being undertaken and comparison to third party industry forecasts and available broker reports.</li> <li>• We engaged an auditor's expert to recalculate a reasonable range for the weighted average cost of capital used as the discount rate in the model and determined that the discount rate used by management was consistent with this.</li> <li>• We considered publicly available market information from recent valuations of similar businesses to compare the recoverable amount determined by management, using discounted cash flow methodology, to the amount which might have been determined using a multiples approach.</li> <li>• We considered a range of reasonably possible alternative scenarios, including those identified by management. For each scenario we tested the updated model for the accuracy of calculations affected by the changes in assumptions including the impact of those changes on the recoverable amount and comparison to the relevant net asset value of the</li> </ul>

Key audit matter	How our audit addressed the key audit matter
<p>which a reasonably possible change would cause the carrying amount to exceed the recoverable amount. These assumptions, together with the changes that would be required in order for the recoverable amount to be equal to the carrying amount, have been disclosed in note 3.1.2.</p>	<p>Group.</p> <ul style="list-style-type: none"> <li>We developed an independent point estimate and derived a range of acceptable outcomes, by considering the level of estimation uncertainty inherent in the New Zealand market, to evaluate management's value in use assessment.</li> </ul> <p>We reviewed the disclosures in the financial statements to ensure that they are compliant with the requirements of the relevant accounting standards and we have no matters to report.</p>

### *Information other than the financial statements and auditor's report*

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

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

### *Responsibilities of the Directors for the consolidated financial statements*

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

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

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

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

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

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

This description forms part of our auditor's report.



---

*Who we report to*

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

---

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

For and on behalf of:

A handwritten signature in blue ink, which appears to read 'Jonathan Skilton'.

Chartered Accountants  
18 February 2019

Auckland