

ANNUAL REPORT

TEAMTALK 2016

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OUR CUSTOMER DECLARATION

We're not textbook, but our team will do "whatever it takes" to deliver on our promises to you. We know that to improve means making sure we hear what you tell us. We're constantly looking for new technologies and better ways to do things, so that our services are what you want. We're on a journey to earn your trust by being accurate, helpful, and dependable.

TEAMTALK HAS THREE BRANDS DELIVERING NICHE TELECOMMUNICATIONS SERVICES TO A WIDE RANGE OF CLIENTS ANYWHERE IN NEW ZEALAND.



TEAMTALK

TeamTalk has been providing and managing mobile radio networks since 1994. We are the leader in the mobile radio network market, providing the only commercial nationwide mobile radio infrastructure. Our customers include transport, construction and security industries amongst others. We also own and operate dedicated networks for emergency services, the largest of these is a nationwide network for Ambulance New Zealand. In addition to providing mobile radio services the company now provides a range of GPS based dispatch and tracking services to the New Zealand transport business sector.



FARMSIDE

Farmside is New Zealand's leading rural telecommunications specialist. We provide fast broadband to rural New Zealand via satellite, the Government-funded Rural Broadband Initiative services, ADSL and wireless and wireline services.

Farmside services include rural broadband, homeline, Farmside voice (VoIP) and mobile solutions, and associated computer and networking equipment to enable integrated connectivity.

Based in Timaru, Farmside has around 15,000 clients throughout New Zealand.



CITYLINK

CityLink owns its own fibre optic based telecommunications networks in the Auckland and Wellington central business districts. Based on these networks we provide some of New Zealand's highest speed and most innovative telecommunications services to business and the telecommunications industry. The company also provides specialist services such as the internet exchanges which are at the heart of New Zealand's internet infrastructure and Wellington's cdbfree citywide Wi-Fi service.

FROM THE CHAIRMAN

The TeamTalk group has had a difficult year but the results do need to be viewed against a backdrop of considerable group-wide transition, significant investment in infrastructure and a challenging environment. At \$12.60 million EBITDA¹ is a bit lower than expectations while, as previously signalled, there have been a number of non-cash charges relating to accelerated depreciation and the impairment of a number of fixed assets and intangibles which means that the full year bottom line result is a loss.

Of course during the period the company said farewell to David Ware, the company's founder and Managing Director, who obviously made an enormous contribution to the group over his more than 20 years at the helm. The board would like to publicly thank and acknowledge David for all of his efforts over that long period.

We welcome aboard the new Chief Executive Officer Andrew Miller who officially takes up the role in early September. Andrew joins us from Callaghan Innovation and brings a wealth of knowledge and experience of the telco sector from his impressive background including a period as Managing Director of Alcatel Lucent NZ & Pacific Islands.

The board is confident that Andrew's commitment to innovation and his agenda to get more from our assets, while working more closely with industry partners, makes him a good fit for the group as we prepare for the future.

Despite the absence of a CEO over the last few months it has very much been business as usual across the group with senior staff and board members stepping up to fill positions as required. Accordingly the board wishes to thank those staff and others, who have worked so hard to maintain our reputation as a reliable, innovative business in this period.

OPERATIONS

Trading conditions continue to be tight, and as forecast, margins are under pressure as customers continually pursue more services at a lower cost. Unfortunately not all of our cost inputs necessarily follow the same path so we are constantly having to review the way we do things, as we continually strive to do as much as we can with our shareholders' money.

CityLink – a niche business broadband service provider – continues to make gains with an EBITDA result of over \$7.2 million which is almost 11% up on last year.

The amount of data moving across CityLink's wi-fi services continues to grow at pace and in recent months CityLink has completed a contract to upgrade a key link at the Wellington City Library with smart new technology that provides faster download speeds.

CityLink has also made good progress on the delivery of the Government contract known as Telecommunications as a Service (TaaS) GNet Carrier Interconnect (Peering) Service. While a bit of a mouthful CityLink was able to leverage its position as New Zealand's leading Internet Exchange provider to win this flagship contract. The TaaS programme is managed by the Department of Internal Affairs and is the framework for the delivery of all telecommunication services required by government agencies into the future.

In this contract CityLink is responsible for installing, commissioning, operating, and managing interconnect (peering) services in all of the datacentres, right across the country, that are part of the wider TaaS contract. So far, the service has been deployed into datacentres in Trentham, Hamilton, Takanini and Auckland with more to be commissioned in the coming year.

While these sorts of services certainly point the way to the future of CityLink its core business broadband services delivered over its extensive fibre networks in the CBD areas of both Wellington and Auckland continued to grow with another year of increased profits.

Farmside – providing leading broadband services to rural New Zealand – has had another challenging year with EBITDA down substantially on the previous year.

Despite the poor result there are some positives to take from the year. In contrast to 2015, when customer numbers were essentially flat for the whole year 2016 saw consistent month on month growth in customer numbers with total growth of about 3%.

Other operational highlights included the launch of an

¹ EBITDA = Earnings before Interest, Tax, Depreciation and Amortisation and is often considered an appropriate measure of the underlying cash based profits from a business.



RBI (digital) voice product which has been taken up by the majority of Farmside's RBI customers and the launch, near the very end of the financial year, of a 4G RBI service in more than a dozen regional centres.

The biggest driver of Farmside's fortunes over the last few years has been the greater than expected loss of satellite customers and a decline in profitability from the remaining users. To that end the announcement we made, in early June, of the successful negotiation of an alternative satellite provider is a material step forward for the business. We believe that the greatly improved service we are able to provide to the satellite customers combined with the terms on which we are able to purchase the capacity from the satellite owner, along with continued growth in RBI customers, should mean that Farmside's EBITDA will progressively increase over the coming financial year.

The planned migration of satellite customers also resulted in a number of material non-cash charges and writedowns of existing satellite equipment and intangible assets which have impacted the whole group's overall result. The migration has also impacted on group cashflow as Farmside is required to undertake an extensive capital investment programme over the first part of the new financial year in order to provide this enhanced service.

While far from happy with the results of the last year the Board believes that Farmside has made progress from an operational standpoint and by continuing to develop innovative partnerships that it will be able to offer more services with greater reach to more of its rural customers.

TeamTalk Wireless – provider of nationwide mobile radio and wireless broadband services - finished the period with EBITDA marginally down on the previous year.

This business unit has also had a busy 12 months launching and developing new products to maximise utilisation of its significant infrastructure assets.

In the 'new product category' was the launch of RTmax which is an affordable, entry-level digital mobile radio network, based on Motorola's Linked Capacity Plus technology. The initial release in Auckland has already attracted hundreds of customers and planning is well underway to increase capacity

in that market as well as extending coverage later this year initially into the Waikato, Bay of Plenty and Wellington regions with a further roll-out into the South Island also in the planning horizon.

TeamTalk wireless also introduced a number of other innovative technologies from Motorola, the acknowledged world leader in the mobile radio market, with more expected over the coming year. Over the period we launched both the new Motorola WAVE Communicator (an app which turns a customer's smartphone or tablet into a secure, multi-channel push-to-talk communications handset) and TRBOnet software services (a highly-customisable control room application which provides a range of features targeted at TeamTalk's blue collar customers) for use on the division's digital mobile radio networks.

TeamTalk now fully incorporates the group's business wireless broadband division which has experienced a pick-up in orders for primary and back up links for its customers. Delivering business grade services on a nationwide basis is not a straightforward task however so these links will be delivered progressively over the coming financial year.

All up we expect the TeamTalk Wireless business to have a steady result in FY17.

STRATEGY, CAPITAL INVESTMENT AND THE DIVIDEND

At an operational level the strategic focus has continued to be rationalising group activities by bringing together the expertise previously spread across the group. Historically this meant back-office functions like Finance and some network management functions but we're now integrating closer and closer to the customer. Indeed, right now we have a number of front-line sales staff selling the whole suite of services that the group is able to offer as well as operations staff who are familiar with all the diverse technologies that the TeamTalk group has deployed.

The arrival of a new CEO is an opportune time to consider the group and its wider corporate strategies with a 'fresh set of eyes'. Accordingly, as recently announced, the board engaged Cameron Partners Limited to assist with a review of the group's strategy. The board welcomed their analysis

and report and believes that it forms an important input into the discussions that the board and senior management will have as we collectively look to chart our course forward and consider the options open to us.

An important element of the strategic review is consideration of the group's cashflows, capex requirements and dividend policy.

We have already highlighted the short term cash requirements that Farmside's satellite customer migration programme has on the group. Another impending requirement is within CityLink where it will need to migrate parts of its Wellington fibre network off the city's trolley bus infrastructure as that iconic part of Wellington's transport network is replaced over the next few years. There are a number of options that are being worked through but in all scenarios it is a major, multi-million dollar undertaking.

Westpac, our long-term bankers, have remained supportive through this period and we have just entered into an amended facility that will take us into FY18.

Combining the major capital requirements noted above with the disappointing results and the desire to leave as many strategic options as possible open to the company and the new CEO the board have made the very difficult decision to not pay a final dividend in October this year. The issue of our future dividend policy is an important element of the wider strategic review so we will look to provide updates to shareholders over coming months.

OUTLOOK

Somewhat paradoxically perhaps the group is in better heart than one may expect given the results of the last year. We expect a modest improvement in our EBITDA results over the coming year which, combined with substantially lower non-cash charges, will flow through to a materially better bottom line result.

We plan to build on the significant and important transition year that we have just had by better capitalising on the group's scale, building new infrastructure and developing more and better industry partnerships. The plan is simply to get more return from each and every one of our assets.

Of course we are also looking forward to the fresh energy that the new Chief Executive Officer will bring.

The year just gone was disappointing but we do look forward with confidence to reporting back to you on our progress throughout the coming year.

On behalf of the board of directors,



ROGER SOWRY
Chairman



THE BOARD OF DIRECTORS



ROGER SOWRY
INDEPENDENT CHAIRMAN

Roger became TeamTalk's Chairman in August 2014. He also serves as a member of the Electricity Authority, and chairs WelTec and Whitireia Polytechnics. He is currently a partner at Saunders Unsworth Limited.

Roger is Chair of Homecare Medical, a nationwide privately owned Telehealth service. Roger was a Member of Parliament from 1990 to 2005. Following the 1996 election he was Minister of Social Welfare. He served as Associate Minister of Health (1996-98) and Leader of the House (1998-99). In 1999 Roger became Deputy Leader of the National Party. Roger retired from Parliament in 2005, moving to become Chief Executive of Arthritis New Zealand.



NATHAN YORK
INDEPENDENT DIRECTOR

Nathan has held a number of senior management and governance positions, primarily in the Māori and property sectors, and is currently the Chief Operating Officer for Tuaropaki Trust and Chair of the Ahu Whenua Trust, Whaiti Kuranui 2D4 Sec1B. He has extensive portfolio management and property development experience, having delivered a number of nationally recognised projects during his prior involvement at Tainui Group Holdings. Nathan has tribal affiliations to Ngāpuhi, Ngāti Raukawa/Tainui and Ngāti Tūwharetoa.



GEORGE PATERSON
INDEPENDENT DIRECTOR

George has been involved in accounting and finance for over 25 years, first as a chartered accountant in public practice and then as CFO and Joint CEO of Southern Capital/Hirequip Group which was listed on the NZX at the time. George has a broad range of experience in business and IT systems, banking and financing arrangements, business appraisal and valuation and currently holds directorships with Celtic Services, Mt Work Limited, and Luxon Limited.



TONE BORREN

INDEPENDENT DIRECTOR

Tone has been involved in the telecommunications Industry for more than 20 years in roles ranging from heading successful start-up company Mitel, to leading Telecom Wellington, through to turning around the performance of the New Zealand arm of multinational Alcatel. Tone is Chair of Holmes Group Limited and holds directorships in a variety of technology and communications companies such as Shift Limited, Pikselin Limited and CityLink Limited.



REG BARRETT

INDEPENDENT DIRECTOR

Reg is a Wellington based company director with assignments in both the commercial and government sector in New Zealand and overseas. He is a former CEO of three organisations with Central and Regional government spanning 13 years, a military engineer career spanning 21 years and over 10 years executive experience with Vodafone. He has had over 25 years governance experience as both a Chairman and Director of commercial enterprises and specialist knowledge in civil engineering projects, telecommunications, supply chain, land transport and use of technologies as enablers for enterprises.



GEOFF DAVIS

FINANCE DIRECTOR

Geoff has been involved with TeamTalk for over 15 years in a variety of executive and non-executive roles. Geoff is currently an Executive Director at Armillary Limited and serves as part-time Finance Director for TeamTalk, allowing the group to continue making use of his experience in finance, investment markets and history with TeamTalk. Geoff is also a Director of BayCity Communications Limited and CityLink Limited.

NEW CHIEF EXECUTIVE



As the 2016 TeamTalk Annual Report goes to print, the group's new Chief Executive Andrew Miller is busy getting to know the business.

Andrew started at the beginning of September. He brings a wealth of experience in the telco sector, and has a strong pedigree in innovation.

As previously mentioned he is a former CEO and Managing Director of Alcatel-Lucent NZ & Pacific Islands, joining TeamTalk following his role as

Commercial Business General Manager at Callaghan Innovation.

Andrew says he's looking forward to the challenge of his new role and is excited by the opportunities.

"The TeamTalk group is an exceptionally diverse organisation with a solid reputation and a great culture.

"We need to reshape the organisation for future success, including looking at potential partnerships where we can leverage our assets to deliver better outcomes for both our customers and shareholders.

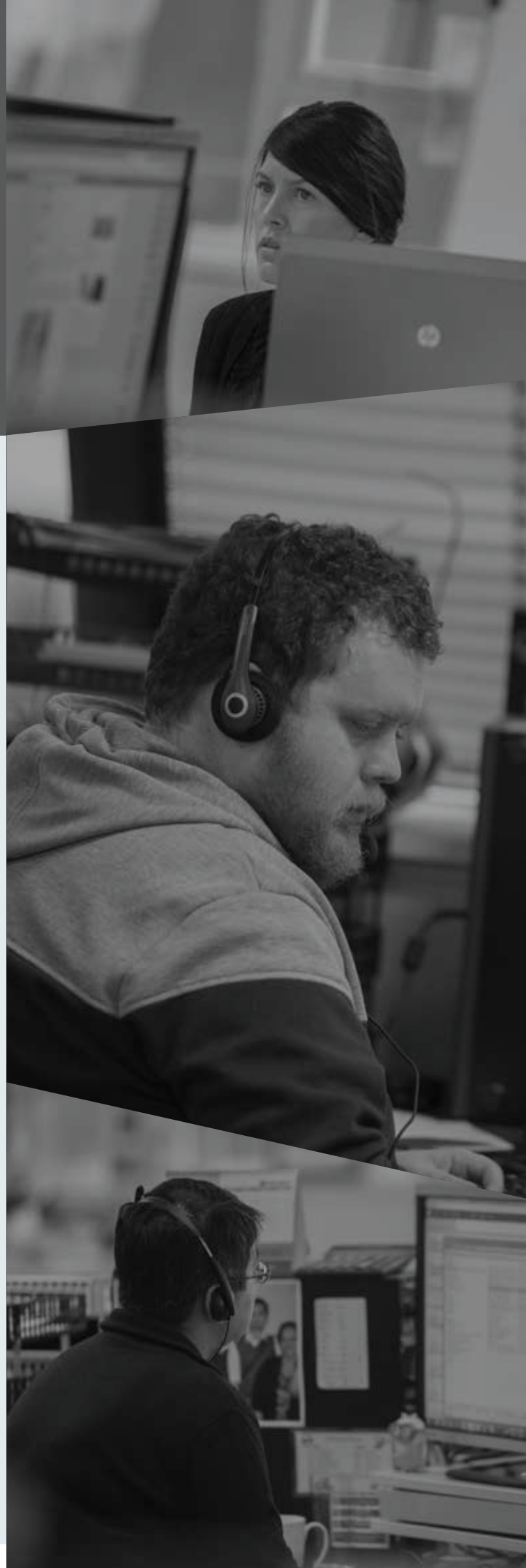
"TeamTalk has been around for over 20 years and I believe it's got a bright future with many new opportunities."

Andrew's aware that shareholders have had limited returns over the past few years, and that because of the current financial position, the final dividend for this year is not being paid out.

"I empathise with the shareholders who have been very loyal. It is my intention that the strategy we put in place will, over time, create a more sustainable business, and allow us to re-instate a dividend.

"I have already commenced a deep analysis of the business and while it may take some time to develop a comprehensive strategy and plan, we will keep you, our shareholders, updated on the initiatives we start implementing.

"I have heard from a number of shareholders in the short time since I started, and I look forward to catching up with more of you at the AGM."



FINANCIAL STATEMENTS

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STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2016

	NOTE	GROUP 2016 \$000's	GROUP 2015 \$000's
Revenue	6	57,295	57,789
Operating costs	7	(38,728)	(35,463)
Gross profit		18,567	22,326
Other income	8	786	616
Administrative expenses	9	(17,556)	(18,483)
Results from operating activities		1,797	4,459
Finance income	10	322	228
Finance expenses	10	(2,549)	(2,910)
Net finance costs		(2,227)	(2,682)
(Loss) / Profit before goodwill impairment and income tax		(430)	1,777
Goodwill impairment	14	(1,000)	-
(Loss) / Profit before income tax		(1,430)	1,777
Income tax benefit /(expense)	11	120	(433)
Total comprehensive (loss)/income for the period		(1,310)	1,344
Attributable to:			
Equity holders of the Company		(1,310)	1,344
Non-controlling interest		-	-
		(1,310)	1,344
Earnings per share			
Basic earnings per share	17	(\$0.046)	\$0.047

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2016

Group 2016	NOTE	ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		
		SHARE CAPITAL	RETAINED EARNINGS & OTHER RESERVES	TOTAL EQUITY
		\$000'S	\$000'S	\$000'S
Balance at 1 July 2015		60,266	(36,463)	23,803
(Loss) for the period		-	(1,310)	(1,310)
Total comprehensive income for the period		-	(1,310)	(1,310)
Contributions by and distributions to owners of the Company				
Dividends to equity holders	16	-	(2,284)	(2,284)
Total transactions with owners		-	(2,284)	(2,284)
Balance at 30 June 2016		60,266	(40,057)	20,209

Group 2016	NOTE	ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		
		SHARE CAPITAL	RETAINED EARNINGS & OTHER RESERVES	TOTAL EQUITY
		\$000'S	\$000'S	\$000'S
Balance at 1 July 2014		60,266	(34,525)	25,741
Total comprehensive income for the period		-	1,344	1,344
Profit for the period		-	1,344	1,344
Contributions by and distributions to owners of the Company				
Dividends to equity holders	16	-	(3,282)	(3,282)
Total transactions with owners		-	(3,282)	(3,282)
Balance at 30 June 2015		60,266	(36,463)	23,803

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2016

	NOTE	GROUP 2016 \$'000'S	GROUP 2015 \$'000'S
Non-current assets			
Property, plant and equipment	13	36,962	40,729
Intangible assets and goodwill	14	21,325	23,705
Finance lease receivable	20	173	101
Prepayments		286	236
Deferred tax assets	12	1,228	-
Total non-current assets		59,974	64,771
Current assets			
Trade and other receivables	27(a)	7,212	6,899
Current tax receivable		-	441
Finance lease receivable	20	161	163
Prepayments		974	898
Inventory	15	1,781	2,293
Derivatives	27(g)	-	243
Cash and cash equivalents		522	424
Total current assets		10,650	11,361
Total assets		70,624	76,132
Equity			
Ordinary share capital	16	60,266	60,266
Retained earnings and other reserves		(40,057)	(36,463)
Total equity		20,209	23,803
Non-current liabilities			
Loans and borrowings	18	33,593	35,500
Deferred income		1,299	1,933
Deferred tax liabilities	12	-	435
Total non-current liabilities		34,892	37,868
Current liabilities			
Loans and borrowings	18	93	-
Trade and other payables	19	8,934	8,854
Current tax payable		543	-
Deferred income		5,183	5,115
Derivatives	27(g)	770	492
Total current liabilities		15,523	14,461
Total equity and liabilities		70,624	76,132
Net tangible assets per share		(\$0.039)	\$0.003

On behalf of the Board of Directors

Director

24 August 2016



Director

24 August 2016



STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2016

	NOTE	GROUP 2016 \$000'S	GROUP 2015 \$000'S
Cash flows from operating activities			
Cash provided from:			
Receipts from customers		57,256	59,775
Net GST receipts/(payments)		1	(272)
		57,257	59,503
Cash applied to:			
Payments to suppliers and employees		(45,029)	(47,508)
Interest expense paid (net of realised FX (gain)/loss)		(1,776)	(2,086)
Income tax paid		(559)	(1,441)
		(47,364)	(51,035)
Net cash flows from operating activities	23	9,893	8,468
Cash flows from investing activities			
Cash provided from:			
Interest income received		13	25
Finance lease interest income received		57	56
Repayment of finance lease receivables		201	224
		271	305
Cash applied to:			
Acquisition of property, plant and equipment		(5,697)	(6,182)
Acquisition of goods subject to finance leases		(271)	(107)
		(5,968)	(6,289)
Net cash flows from investing activities		(5,697)	(5,984)
Cash flows from financing activities			
Cash provided from:			
Proceeds from borrowings		17,650	13,890
		17,650	13,890
Cash applied to:			
Repayment of borrowings		(19,464)	(13,029)
Dividends paid		(2,284)	(3,282)
		(21,748)	(16,311)
Net cash flows from financing activities		(4,098)	(2,421)
Net increase/(decrease) in cash and cash equivalents		98	63
Cash and cash equivalents at beginning of year		424	361
Cash and cash equivalents at end of year		522	424

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

1 Reporting entity

TeamTalk Limited ("the Company") is a company domiciled in New Zealand, registered under the Companies Act 1993 and listed on the New Zealand Stock Exchange ("NZX"). The Company is a FMC Reporting Entity in terms of Part 7 of the Financial Markets Conduct Act 2013. The financial statements have been prepared in accordance with the requirements of these Acts and the Financial Reporting Act 2013.

The consolidated financial statements of TeamTalk Limited as at and for the year ended 30 June 2016 comprise the Company and its subsidiaries (together referred to as "the Group").

The Group is primarily involved in the provision of mobile radio networks, high speed broadband services and ISP services in New Zealand.

2 Basis of preparation

STATEMENT OF COMPLIANCE

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ("NZ GAAP"). They comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable Financial Reporting Standards, as appropriate for Tier 1 Companies. The financial statements also comply with International Financial Reporting Standards ("IFRS").

The accounting policies below have been applied consistently to all periods presented in these financial statements.

In accordance with the Financial Markets Conduct Act 2013, where a reporting entity prepares consolidated financial statements, parent company disclosures are not required to be included. As such the consolidated financials now disclose only consolidated results of the Group.

The financial statements were approved by the Board of Directors on 24 August 2016.

BASIS OF MEASUREMENT

The financial statements are prepared on the historical cost basis except that derivatives (interest rate swaps and foreign exchange contracts) are stated at their fair value.

The financial statements have been prepared on a going concern basis.

FUNCTIONAL AND PRESENTATION CURRENCY

The financial statements are presented in New Zealand dollars (\$), which is the Group's functional currency and are rounded to the nearest thousand.

USE OF ESTIMATES AND PRESENTATION

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The area of most significant estimation uncertainty which requires critical judgements in applying the Group's accounting policies is goodwill. Refer to note 14 - Intangible assets and goodwill.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(A) BASIS OF CONSOLIDATION

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(B) FINANCIAL INSTRUMENTS

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, advances to subsidiaries and trade and other payables.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A non-derivative financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular transactions relating to purchases and sales of financial assets are accounted for at trade date i.e. the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Trade and other receivables

Trade and other receivables are stated at their cost less impairment losses and measured at amortised cost using the effective interest rate method.

Interest-bearing borrowings

Interest-bearing borrowings are classified as liabilities measured at amortised cost and accordingly are measured at amortised cost using the effective interest method.

Advances to subsidiaries

Advances to subsidiaries are classified as assets carried at amortised cost and accordingly measured at amortised cost using the effective interest method.

Trade and other payables

Trade and other payables are stated at cost.

(ii) Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to interest rate and foreign exchange rate risks arising from operational, financing and investment activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at fair value and transaction costs are expensed immediately. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss.

(iii) Foreign currency transactions

All foreign currency transactions during the financial period are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated using the exchange rate at that date.

(iv) Share capital

Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity.

(C) PROPERTY, PLANT AND EQUIPMENT

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses, if any.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

3 Significant accounting policies (continued)

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment.

The estimated useful lives for the current and comparative periods are as follows:

Transmission equipment (Mobile Radio)	12 years
Network hardware (Broadband and ISP)	2-40 years
Leasehold improvements	10-20 years
Office equipment/furniture and fittings	10-12.5 years
Computer equipment	3-4 years
Motor vehicles	3-4 years

Depreciation methods, useful lives and residual values are reassessed on a regular basis. Freehold property land is not depreciated.

(D) INTANGIBLE ASSETS

(i) Goodwill

Goodwill arises on the acquisition of subsidiaries.

Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in profit or loss.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses.

(ii) Other Intangible Assets

Other intangible assets that are acquired by the Group and have future useful lives are measured at cost less accumulated amortisation and accumulated impairment losses.

(iii) Amortisation

Except for goodwill, intangible assets are amortised on a straight-line basis in profit or loss over their estimated useful lives, from the date they are available for use.

The estimated useful lives for the current and comparative periods are as follows:

Trademarks	10 years
Capitalised development costs	1.5-2 years
Customer contracts and associated relationships	10 years

(E) INVENTORIES

Inventories are measured at the lower of cost and net realisable value and consist of network components. The cost of inventories is based upon the average cost principle, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(F) LEASED ASSETS

Leases in terms of which the group assumes substantially all risks and rewards of ownership are classified as finance leases. Other leases are operating leases and not recognised on the Group's Statement of Financial Position.

(G) IMPAIRMENT OF FINANCIAL ASSETS

An impairment loss is recognised when the carrying amount of an asset exceeds its recoverable amount at each reporting period. Impairment losses directly reduce the carrying amount of assets and are recognised in profit or loss.

(i) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets and inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill recoverable amount is estimated at each reporting date.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated to goodwill and then on a pro rata basis to all assets.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount (other than goodwill). An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(ii) Impairment of receivables

The recoverable amount of the Group's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate i.e. the effective interest rate computed at initial recognition of these financial assets. Receivables with a short duration are not discounted.

Impairment losses on an individual basis are determined by an evaluation of the exposures on an instrument by instrument basis. All individual instruments that are considered significant are subject to this approach.

(H) EMPLOYEE BENEFITS

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(I) REVENUE

(i) Goods sold

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

Installation fees are one-off upfront payments made by customers at the commencement of service.

(ii) Services

Revenue includes access and usage charges under service agreements with the Group. The terms of these service agreements range from monthly to 60-month periods. Revenue is recognised when the service is performed.

(iii) IRU Revenue

An Indefeasible Right of Use ("IRU") is an agreement whereby the owner of fibre optic infrastructure sells the right to have unrestricted use and access to certain specific fibres within the network for a specified term. Revenue from IRU agreements is initially treated as deferred income and recognised over the life of the contracts.

(iv) Deferred income

Income received in advance relates to network services (including IRU agreements) and is initially treated as deferred income and recognised over the life of the contracts.

(J) LEASE PAYMENTS

(i) Operating lease

Payments made under operating leases (as a lessee) are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

3 Significant accounting policies (continued)

(ii) Finance lease

Finance income from finance leases (as a lessor) is based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the finance lease.

(K) INCOME TAX EXPENSE

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in other comprehensive income or equity, in which case it is recognised in other comprehensive income or equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit and temporary differences arising from the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(L) Goods and services tax

The financial statements have been prepared on a GST exclusive basis, except for receivables and payables which are stated inclusive of GST.

(M) FINANCE INCOME AND EXPENSES

Finance income comprises interest income on funds invested, finance leases and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues, using the effective interest method.

Finance expenses comprise interest expense on borrowings, impairment losses recognised on financial assets (except for trade receivables) and losses on hedging instruments that are recognised in profit or loss. All borrowing costs are recognised in profit or loss using the effective interest method.

(N) GOVERNMENT GRANTS

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the Statement of Financial Position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

(O) EARNINGS PER SHARE

The Group presents basic earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary equity holders and the weighted average number of ordinary shares outstanding for the effects of all potentially dilutive issues of ordinary shares.

(P) PROVISIONS

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(Q) CHANGES IN ACCOUNTING POLICIES

No changes to accounting policy have been made during the year and policies have been consistently applied to all years presented in the financial statements.

(R) DETERMINATION AND PRESENTATION OF OPERATING SEGMENTS

Segment results that are reported to the Managing Director include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise the Company's external borrowings from Westpac New Zealand Limited.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

(S) NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

Standards and new interpretations that have been issued and are effective for periods beginning on or after 1 July 2016 have not been adopted in these financial statements:

NZ IFRS 15: Revenue from Contracts with Customers (effective 1 January 2018); and

NZ IFRS 9: Financial Instruments (effective 1 January 2018); and

NZ IFRS 16: Leases (effective 1 January 2019).

These standards and interpretations are not expected to have a material impact on the financial statements of the Group.

4 Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(A) TRADE AND OTHER RECEIVABLES

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(B) DERIVATIVES

The fair value of interest rate swaps and foreign exchange contracts are based on bank quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

(C) NON-DERIVATIVE FINANCIAL LIABILITIES

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option.

5 Segment reporting

Segment results that are reported to the CEO (the chief operating decision maker) include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise the Company's external borrowings from Westpac New Zealand Limited.

The Group has three reportable segments, as described below, which are the Group's strategic divisions. The strategic divisions offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic divisions, the Group's CEO reviews internal management reports on at least a quarterly basis. As a result of the amalgamation of Araneo Limited into the parent company TeamTalk Limited on 30 June 2015, the structure of the internal organisation and the basis of the measurement of the operating segments has changed. Amounts reported for the prior periods have been restated to conform with the current period's presentation. The following summary describes the operations in each of the Group's reportable segments:

Wireless Networks: this segment includes the traditional mobile radio business of TeamTalk Limited along with associated finance leasing, data and GPS tracking products and the wireless broadband business of TeamTalk Limited.

Wired Networks: this segment includes the wired broadband business of CityLink Limited who provides broadband connectivity and ancillary related services to a range of wholesale customers and end users.

ISP: this segment is the BayCity Communications Limited Group which provides ISP and related telecommunications services primarily to rural residential customers.

Information regarding the results of each reportable segment is included below. Revenues, Costs, Assets and Liabilities are measured in accordance with the Group's Accounting Policies in Note 3, as included in the internal management reports that are reviewed by the Group's CEO. Segment EBIT is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

5 Segment reporting (continued)

Group 2016	WIRELESS NETWORKS \$000'S	WIRED NETWORKS \$000'S	ISP \$000'S	INTER-SEGMENT/ UNALLOCATED \$000'S	TOTAL \$000'S
Operating revenue & other income					
- Sales to customers outside the Group	19,808	13,810	24,463	-	58,081
- Inter-segment sales	455	127	52	(634)	-
Total revenue	20,263	13,937	24,515	(634)	58,081
Costs					
- Costs paid to suppliers outside the Group	(15,779)	(6,580)	(23,080)	-	(45,439)
- Inter-segment costs	595	(577)	(652)	634	-
Total costs	(15,184)	(7,157)	(23,732)	634	(45,439)
EBITDA	4,029	7,230	1,383	-	12,642
Depreciation and amortisation	(2,594)	(1,895)	(4,518)	-	(9,007)
Impairment of fixed assets and inventory	-	-	(1,838)	-	(1,838)
Impairment of goodwill	-	-	(1,000)	-	(1,000)
EBIT	1,435	5,335	(5,973)	-	797
Finance income					322
Finance expense					(2,549)
Net interest					(2,227)
Loss before income tax					(1,430)
Income tax benefit/(expense)					120
Loss for the period					(1,310)
Capital expenditure	1,985	1,659	2,053	-	5,697
Total assets	22,031	34,376	14,217	-	70,624
Total liabilities	8,898	3,890	4,127	33,500	50,415

Group 2015	WIRELESS NETWORKS \$000'S	WIRED NETWORKS \$000'S	ISP \$000'S	INTER-SEGMENT/ UNALLOCATED \$000'S	TOTAL \$000'S
Operating revenue & other income					
- Sales to customers outside the Group	20,092	13,393	24,920	-	58,405
- Inter-segment sales	734	123	25	(882)	-
Total revenue	20,826	13,516	24,945	(882)	58,405
Costs					
- Costs paid to suppliers outside the Group	(15,931)	(6,854)	(22,441)	-	(45,226)
- Inter-segment costs	245	(468)	(659)	882	-
Total costs	(15,686)	(7,322)	(23,100)	882	(45,226)
EBITDA	4,161	6,539	2,479	-	13,179
Depreciation and amortisation	(2,416)	(1,793)	(2,854)	-	(7,063)
Impairment of fixed assets and inventory	-	-	(1,657)	-	(1,657)
EBIT	1,745	4,746	(2,032)	-	4,459
Finance income					228
Finance expense					(2,910)
Net interest					(2,682)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

Group 2015	WIRELESS NETWORKS \$000'S	WIRED NETWORKS \$000'S	ISP \$000'S	INTER-SEGMENT/ UNALLOCATED \$000'S	TOTAL \$000'S
Profit before income tax					1,777
Income tax benefit/(expense)					(433)
Profit for the period					1,344
Capital expenditure	2,146	2,031	2,005	-	6,182
Total assets	22,932	36,182	17,018	-	76,132
Total liabilities	8,842	5,257	2,730	35,500	52,329

6 Revenue

	GROUP 2016 \$000'S	GROUP 2015 \$000'S
Revenue from network - on-going fees	54,496	54,455
Installation fees	1,108	846
Revenue from co-location facilities	687	722
Other revenue	1,004	1,766
	57,295	57,789

Other revenue includes upfront fees, early termination fees, non-recurring fees and hardware sales.

7 Operating costs

	GROUP 2016 \$000'S	GROUP 2015 \$000'S
The following items are included in operating costs:		
Depreciation on network assets	7,056	6,017
Impairment of fixed assets	937	1,657
Amortisation and impairment of intangibles	2,386	538
Telecommunications Development Levy	479	535
Network operating costs	15,415	14,832
Other operating costs	12,455	11,884
	38,728	35,463

8 Other income / (expense)

	GROUP 2016 \$000'S	GROUP 2015 \$000'S
Government grants recognised	627	432
Other income	159	184
	786	616

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

9 Administrative expenses

	GROUP 2016 \$000'S	GROUP 2015 \$000'S
The following items are included in administration expenses: Auditor's remuneration to KPMG comprises:		
- Audit of financial statements	125	150
- Regulatory audit work	8	8
- Taxation services	9	75
Depreciation of non-network assets	465	509
Fees paid to the directors	222	179
Operating lease costs	275	102
Rental expenses	573	561
Premises operating expenses	213	247
Wages and salaries	11,635	12,335
Contributions to Kiwisaver	274	273
Marketing expenses	389	511
Other administrative expenses	3,368	3,533
	17,556	18,483

10 Finance income and expense

	GROUP 2016 \$000'S	GROUP 2015 \$000'S
Interest income on bank deposits	13	25
Net realised gain on foreign exchange	252	147
Finance lease interest income	57	56
Total finance income	322	228
Interest expense on external borrowings	(2,040)	(2,233)
Net unrealised loss in fair value of derivatives	(509)	(677)
Total finance expenses	(2,549)	(2,910)
Net finance income / (costs)	(2,227)	(2,682)

11 Income tax expense

	GROUP 2016 \$000'S	GROUP 2015 \$000'S
(a) Income tax expense		
(Loss) / profit before income tax	(1,430)	1,777
Adjustments:		
- Impairment of subsidiary	1,000	-
- Non-deductible entertainment	62	86
- Other non-assessable income	-	(280)
- Other non-deductible expenditure	22	10
Taxable income (loss)/income	(346)	1,593

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

Current period tax expense @ 28% (2015: 28%)	(97)	446
Prior period adjustment	(23)	(13)
Income tax expense/(benefit)	(120)	433
Comprising:		
Income tax expense	1,543	972
Deferred tax expense		
Origination and reversal of temporary differences	(1,663)	(539)
	(1,663)	(539)
Total income tax expense	(120)	433

	GROUP 2016 %	GROUP 2016 \$000'S	GROUP 2015 %	GROUP 2015 \$000'S
(b) Reconciliation of effective tax rate				
(Loss) / profit for the period		(1,310)		1,344
Total income tax (benefit) / expense		(120)		433
(Loss) / profit before income tax		(1,430)		1,777
Income tax using the Company's domestic tax rate	(28.0%)	(400)	28.0%	497
Impairment of subsidiary	19.6%	280	-	-
Non-deductible entertainment	1.2%	17	1.3%	24
Other non-assessable income	-	-	(4.4%)	(78)
Other non-deductible expenditure	0.4%	6	0.2%	3
Prior period adjustment	(1.6%)	(23)	(0.7%)	(13)
	(8.4%)	(120)	24.5%	433

(c) Imputation credits

Imputation credits available for use in future periods were Group \$26,000 (debit) (2015: \$251,000).

12 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

Group	ASSETS		LIABILITIES		NET	
	2016 \$000'S	2015 \$000'S	2016 \$000'S	2015 \$000'S	2016 \$000'S	2015 \$000'S
Property, plant and equipment	2,970	2,427	(2,581)	(2,640)	389	(213)
Inventory	-	-	(102)	(100)	(102)	(100)
Intangibles	-	-	(417)	(798)	(417)	(798)
Finance lease receivable	-	-	(94)	(74)	(94)	(74)
Trade and other payables	768	568	-	-	768	568
Tax losses recognised	684	182	-	-	684	182
Net tax asset/(liability)	4,422	3,177	(3,194)	(3,612)	1,228	(435)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

12 Deferred tax assets and liabilities (continued)

Movement in temporary differences during the year

Movements in deferred tax assets and liabilities are attributable to the following:

Group 2016	BALANCE 1 JULY 2015 \$000'S	RECOGNISED IN P&L \$000'S	RECOGNISED IN OTHER COMPREHENSIVE INCOME \$000'S	BALANCE 30 JUNE 2016 \$000'S
Property, plant and equipment	(213)	602	-	389
Inventory	(100)	(2)	-	(102)
Intangibles	(798)	381	-	(417)
Finance lease receivable	(74)	(20)	-	(94)
Trade and other payables	568	200	-	768
Tax loss carry-forwards	182	502	-	684
	(435)	1,663	-	1,228

Group 2015	BALANCE 1 JULY 2014 \$000'S	RECOGNISED IN P&L \$000'S	RECOGNISED IN OTHER COMPREHENSIVE INCOME \$000'S	BALANCE 30 JUNE 2015 \$000'S
Property, plant and equipment	(345)	132	-	(213)
Inventory	(34)	(66)	-	(100)
Intangibles	(852)	54	-	(798)
Finance lease receivable	(107)	33	-	(74)
Trade and other payables	249	319	-	568
Tax loss carry-forwards	115	67	-	182
	(974)	539	-	(435)

\$000'S Group 2016	TRANSMISSION EQUIPMENT AND NETWORK HARDWARE	ASSETS UNDER CONSTRUCTION	FREEHOLD PROPERTY	MOTOR VEHICLES	COMPUTER EQUIPMENT	OFFICE EQUIPMENT, FURNITURE AND FITTINGS	LEASEHOLD IMPROVEMENTS	TOTAL
Cost								
Balance at 1 July 2015	116,965	1,993	100	65	4,214	1,263	1,362	125,962
Additions	194	5,267	-	-	268	65	-	5,794
Disposals	(1,666)	-	-	(53)	(1)	(17)	-	(1,737)
Transfers	4,881	(4,907)	-	-	-	-	26	-
Reclassification to inventory	(103)	-	-	-	-	-	-	(103)
Balance at 30 June 2016	120,271	2,353	100	12	4,481	1,311	1,388	129,916
Depreciation and impairment losses								
Balance at 1 July 2015	(79,938)	-	-	(37)	(3,672)	(878)	(708)	(85,233)
Depreciation for the year	(7,831)	-	-	(4)	(274)	(99)	(88)	(8,297)
Impairment loss	(928)	-	-	-	-	(9)	-	(937)
Disposals	1,454	-	-	33	5	20	-	1,512
Balance at 30 June 2016	(87,243)	-	-	(9)	(3,941)	(966)	(796)	(92,954)
Carrying amounts								
At 1 July 2015	37,027	1,993	100	28	542	385	654	40,729
At 30 June 2016	33,028	2,353	100	3	541	345	592	36,962

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

Impairment loss

The Group reassesses the carrying values of the property, plant and equipment at each reporting period, with a view to ensuring the carrying value does not exceed the recoverable value of the assets. This review has confirmed that there is currently no need for any further impairment adjustment, other than that already recognised in profit or loss in respect of transmission equipment and network hardware.

Change in estimates

During the year the Group conducted a review of the actual and planned usage of the ISP hardware components, which resulted in revised estimated useful lives of these assets for the purpose of calculating depreciation. These changes in the estimated useful lives are accounted for as changes in accounting estimates and have resulted in an additional depreciation in the financial year of \$2,017,000. These changes will have no impact on the financial statements that have already been disclosed by the Group in prior years.

\$000'S Group 2015	TRANSMISSION EQUIPMENT AND NETWORK HARDWARE	ASSETS UNDER CONSTRUCTION	FREEHOLD PROPERTY	MOTOR VEHICLES	COMPUTER EQUIPMENT	OFFICE EQUIPMENT, FURNITURE AND FITTINGS	LEASEHOLD IMPROVEMENTS	TOTAL
Cost								
Balance at 1 July 2014	109,128	4,655	100	96	4,259	988	1,359	120,585
Additions	328	5,659	-	-	301	44	1	6,333
Disposals	-	-	-	(31)	(550)	(4)	-	(585)
Transfers	7,661	(8,321)	-	-	204	235	2	(219)
Reclassification to inventory	(152)	-	-	-	-	-	-	(152)
Balance at 30 June 2015	116,965	1,993	100	65	4,214	1,263	1,362	125,962
Depreciation and impairment losses								
Balance at 1 July 2014	(72,613)	-	-	(46)	(3,640)	(706)	(616)	(77,621)
Depreciation for the year	(6,018)	-	-	(12)	(326)	(78)	(92)	(6,526)
Impairment loss	(1,307)	-	-	-	(256)	(94)	-	(1,657)
Disposals	-	-	-	21	550	-	-	571
Balance at 30 June 2015	(79,938)	-	-	(37)	(3,672)	(878)	(708)	(85,233)
Carrying amounts								
At 1 July 2014	36,515	4,655	100	50	619	282	742	42,963
At 30 June 2015	37,027	1,993	100	28	542	385	654	40,729

14 Intangible assets and goodwill

Group	CUSTOMER CONTRACTS & INTANGIBLE \$000'S	GOODWILL \$000'S	TOTAL \$000'S
Carrying value			
Balance at 1 July 2015	2,909	20,796	23,705
Additions	6	-	6
Amortisation	(485)	-	(485)
Impairment loss	(901)	(1,000)	(1,901)
Balance at 30 June 2016	1,529	19,796	21,325
Balance at 1 July 2014	3,215	20,796	24,011
Additions	232	-	232
Amortisation	(538)	-	(538)
Balance at 30 June 2015	2,909	20,796	23,705

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

14 Intangible assets and goodwill (continued)

Identifiable Intangibles - Customer Contracts

The Customer contract & related customer relationship intangible asset comprises two components, a customer list which was acquired as part BayCity Communications Limited assets in December 2012 and a customer list which was recorded upon the acquisition of BayCity Communications Limited. Both Customer contract & related customer relationship intangible asset are amortised on a straight line basis over an estimated 10 year useful life. The amortisation expense is recognised within Operating costs.

The Customer contract intangible asset is reviewed at each financial year end for indications of impairment. If any such indication exists a secondary test is undertaken to determine whether a recoverable amount can be estimated for the individual asset or whether the recoverable amount to be estimated is that of the CGU to which the individual asset belongs.

At 30 June 2016 there were potential signs of impairment (2015: nil) and the Customer contract intangible asset which was acquired as part of the assets of BayCity Communications Limited in December 2012 was written down to nil. It has been determined that the recoverable amount of the customer contract & related customer relationship which was recorded upon acquisition of BayCity Communications Limited cannot be estimated in isolation. Accordingly the recoverable amount of BayCity Communications Limited has been estimated in total with any resultant impairment loss recorded against the goodwill relating to BayCity Communications.

Impairment testing for cash-generating units containing goodwill

For the purpose of impairment testing, goodwill is allocated to the Group's operating businesses. The aggregate carrying amounts of goodwill allocated to each CGU are as follows:

	2016 \$000'S	2015 \$000'S
TeamTalk Limited - Mobile radio business	4,838	4,838
CityLink Limited - Broadband business	11,652	11,652
Teamtalk Limited - Wireless broadband business	548	548
BayCity Communications Limited - Internet service provider	2,758	3,758
	19,796	20,796

The Goodwill for these CGUs is not amortised however it is subject to an annual impairment test whether indications of impairment exist or not. Accordingly the goodwill was tested for impairment at 30 June 2016. A discounted cash flow valuation, on a value-in use basis, was prepared for each business unit using a combination of past experience of revenue growth, operating costs, margins and capital expenditure requirements for that CGU and, where appropriate, external sources of information were also used.

In each case the initial years of future cash flow projections were based on a combination of a continuation of the trends of the 2016 financial year and budgets for the 2017 financial year. Explicit projections were then made for periods of either a further 3 or 4 years. The projections for each CGU reflect the maturity of each business and, where appropriate, expected growth potential. Cash flows beyond those explicit projections have been extrapolated using estimated terminal growth rates appropriate for each CGU. The terminal growth rates do not exceed the long-term average growth rate for the industries in which the CGUs operate. The highest long term growth rate applied is 1.5% (2015: 2.0%).

The rates used ranged from 9.71% - 12.36% (2015: 13.04 – 17.13%). In the prior year there was a separate impairment test for Araneo Limited which was subsequently amalgamated into TeamTalk Limited so no separate impairment test was conducted in 2016. Allowing for that the comparative rates used in 2015 ranged between 13.04% - 14.36%.

This exercise confirmed that there are no impairment issues necessitating a write down of goodwill in respect of CityLink Limited and TeamTalk Limited as in each of those cases the CGU's value was in excess of its carrying value (both at the Group and Company level). However, the exercise in relation to BayCity Communications Limited showed a recoverable amount below the carrying value for that CGU. Accordingly an impairment charge of \$1.000 million was made against the goodwill allocated to the CGU. This non-cash charge has been recognised in profit or loss.

15 Inventory

	GROUP 2016 \$000'S	GROUP 2015 \$000'S
Radio & Data units	368	492
Satellite network components	634	900
Broadband network components	435	407
Wireless and Mobile Radio network components	344	494
	1,781	2,293

In 2016 the Group sold inventory with a carrying value amounting to \$519,254 recognised as part of operating costs. (2015: \$1,073,265). The remainder is held for use by the Group.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

16 Capital and reserves

Share capital

The Company has 28,368,994 fully paid no par value shares on issue at balance date (30 June 2015: 28,368,994). All shares have equal rights and rank equally with regard to the Company's residual assets.

Shares on issue	2016 NUMBER OF SHARES	2015 NUMBER OF SHARES	2016 \$000'S	2015 \$000'S
Opening balance at 1 July	28,368,994	28,368,994	60,266	60,266
Closing balance at 30 June	28,368,994	28,368,994	60,266	60,266

Dividends

The following dividends were declared and paid by the Group for the year ended 30 June:

	2016 \$000'S	2015 \$000'S
Final dividend for prior financial year \$0.04 per qualifying ordinary share (2015: \$0.075)	1,142	2,140
Interim dividend for current financial year \$0.04 per qualifying ordinary share (2015: \$0.04)	1,142	1,142
	2,284	3,282

17 Earnings per share

Basic and diluted earnings per share

The calculation of basic earnings per share at 30 June 2016 was based on the loss attributable to ordinary shareholders of \$1,310,000 and a weighted average number of ordinary shares outstanding of 28,368,994 (2015: 28,368,994) calculated as below:

There were no dilutive equity instruments on issue during the year so there is no difference between Basic and Diluted EPS at 30 June 2016 (2015: Nil).

	2016 \$000'S	2015 \$000'S
Profit attributable to ordinary shareholders	(1,310)	1,344

	IN SHARES	IN SHARES
Weighted average number of ordinary shares		
Issued ordinary shares at 1 July	28,368,994	28,368,994
Number of shares issued during the year	-	-
Issued ordinary shares at 30 June	28,368,994	28,368,994
Weighted average number of ordinary shares for the period	28,368,994	28,368,994
Weighted average number of ordinary shares for the period (fully diluted)	28,368,994	28,368,994
Basic earnings per share (\$)	(\$0.046)	\$0.047
Diluted earnings per share (\$)	(\$0.046)	\$0.047

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

18 Loans and borrowings

	GROUP 2016 \$000'S	GROUP 2015 \$000'S
(a) Non-current liabilities		
Secured bank loan	33,500	35,500
Other unsecured borrowings	93	-
	33,593	35,500
(b) Current liabilities		
Other unsecured borrowings	93	-
	93	-

Term loan repayment schedule

The terms and conditions of outstanding loans are as follows:

Group	NOMINAL INTEREST RATE	YEAR OF MATURITY	FAIR VALUE 2016 \$000'S	CARRYING AMOUNT 2016 \$000'S	FAIR VALUE 2015 \$000'S	CARRYING AMOUNT 2015 \$000'S
Secured bank loan	BKBM plus margin	2018	33,500	33,500	35,500	35,500
Other unsecured borrowings			186	186	-	-
Total interest-bearing liabilities			33,686	33,686	35,500	35,500

The Company and Group have secured funding facilities with Westpac New Zealand Limited with, at 30 June 2016, a combined limit of \$40 million and a maturity of December 2018 (2015: \$40 million and December 2018). Subsequent to balance date the facility limit was reduced to \$37.50 million and the maturity amended to September 2017.

The secured bank loans are subject to various covenants such as debt coverage and interest coverage. Throughout the year the Company has complied with all debt covenant requirements.

As well as a charge over the Company's assets the secured bank loans are also secured by cross-guarantees from the Company's subsidiaries whereby they each provide a guarantee of the obligations of the Company, and of any other subsidiaries of the Company, to Westpac New Zealand Limited, secured by a first ranking charge over all the assets of each company.

19 Trade and other payables

	GROUP 2016 \$000'S	GROUP 2015 \$000'S
Trade creditors	3,000	2,848
Employee entitlements	904	1,369
Other payables and accruals	5,030	4,637
	8,934	8,854

20 Finance lease receivable

Group	MINIMUM LEASE PAYMENTS 2016 \$000'S	INTEREST 2016 \$000'S	GROSS INVESTMENT IN LEASE 2016 \$000'S	MINIMUM LEASE PAYMENTS 2015 \$000'S	INTEREST 2015 \$000'S	GROSS INVESTMENT IN LEASE 2015 \$000'S
Less than one year	161	42	203	163	32	195
Between one and five years	176	21	197	103	12	115
	337	63	400	266	44	310
Less impairment of finance lease receivable	(3)			(2)		
Total finance lease receivable	334			264		

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

The Group provides a leasing service to its customers for equipment used on the Group's networks. Typically these leases are for a three year period, attracting market interest rates and the goods have relatively low residual values at the end of the term. The residual values are not guaranteed, but historically the Group has found a willing market for the goods at the end of the lease term and expected residual values are met or exceeded.

As the agreements are defined as finance leases, the Group only recognises the interest component of the monthly repayments in profit or loss. The principal portion is applied to the finance lease receivable.

21 Contingent liability

At balance date the Group had no contingent liabilities (2015: \$Nil).

22 Commitments

	GROUP 2016 \$000'S	GROUP 2015 \$000'S
(a) Operating lease commitments		
Leases as lessee		
Commitments under non cancellable operating leases are:		
Less than one year	1,165	1,034
Between one to two years	861	655
Between two to five years	815	771
	2,841	2,460

The Group leases a number of premises and vehicles under operating leases.

Premises leases operate under various differing terms, but typically are based around an initial lease period, with 1 or 2 further right of renewal periods. Some premises are leased on an annual basis and others are subject to monthly terms (storage units). Premises leases typically include rent uprates every 2-3 years with such increases reflecting revised valuations of the premises and changes in market conditions.

The vehicle leases typically run for a period of 3 years, with the vehicles returned to the lessor at the end of term.

(b) Capital commitments

In June 2016 the Group entered into a contract with Optus Satellite Pty for the provisioning of satellite bandwidth. The agreement is a multi-year contract that involves \$2,807,000 of capital expenditure in the next financial year.

23 Reconciliation of the profit for the period with the net cash flow from operating activities

	NOTE	GROUP 2016 \$000'S	GROUP 2015 \$000'S
(Loss)/Profit for the period (after tax)		(1,310)	1,344
Adjustments for:			
Depreciation, amortisation and impairment	13	11,844	8,721
(Gain)/loss on derivatives		521	677
Prepaid services utilisation / (additions)		(159)	(19)
(Decrease)/increase in bad debt provision		(62)	104
Interest income/(loss)	10	(70)	(81)
(Decrease)/increase in deferred income		(564)	977
Deferred tax movement	12	(1,663)	(539)
		9,847	9,840
Decrease/(increase) in prepayments		20	(81)
Decrease/(increase) in trade and other receivables		(251)	333
Decrease/(increase) in income tax receivable		984	(469)
Decrease/(increase) in deferred expenses (prepaid IRU)		12	12
Decrease/(increase) in inventory		512	360
(Decrease)/increase in trade and other payables		79	(2,871)
		1,356	(2,716)
Net cash from operating activities		9,893	8,468

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

24 Related party transactions

SHAREHOLDERS

As at 30 June 2016 the registered shareholder with the largest holding in the Company was Barry William Payne & Brett Gould & Sandra Tui Payne who held 1,222,281 shares or 4.31% of the Company's shares (2015: 1,222,281 shares or 4.31% of the issued shares).

TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

Key management personnel compensation

Key Group management personnel compensation comprised short-term employee benefits of \$1,722,796 for the year ended 30 June 2016 (2015: \$1,935,945). This excludes directors' fees of \$222,000 (2015: \$179,000). The compensation during the period includes payments to former employees and reflects the different composition of the management team.

Other transactions with key management personnel

Directors of Group Companies control 0.2% of the voting shares of the Company (2015: 1.39%).

Transactions and balances with related parties

Elected directors conduct business with the Group in the normal course of their business activities.

Directors of the subsidiary companies received no directors fees during the period (2015: nil). The directors of the Company received fees totalling \$222,000 during the period (2015: \$179,000).

Following David Ware's resignation in April 2016, Reg Barrett and Tone Borren provided additional services for the Group. During the period the fees for these services were \$40,000.

In April 2015 the Company entered into an agreement with Armillary Limited whereby Armillary provides the services of Geoff Davis as Finance Director. During the period the fees were \$132,000 (2015: \$35,000).

The Company's borrowings from Westpac New Zealand Limited are secured by a first ranking charge over the Company's assets as well as cross-guarantees from the Company's subsidiaries whereby they each provide a guarantee of the obligations of the Company, and of any other subsidiaries of the Company, to the bank via a first ranking charge over all the assets of each respective company.

Group entities Significant subsidiaries	COUNTRY OF INCORPORATION	OWNERSHIP INTEREST (%)		BALANCE DATE	ACTIVITIES
		2016	2015		
CityLink Limited	New Zealand	100%	100%	30 June	Broadband services
BayCity Communications Limited	New Zealand	100%	100%	30 June	Internet service provider

25 Key suppliers

The Group purchases products and services from a wide range of suppliers. The most significant of which are Spark New Zealand, Chorus, Kordia, Tait Electronics, Motorola, Tyco, Optus, IPSTAR, Eutelsat and Inmarsat. Kordia and Chorus house most of the Company's equipment and provide basic linking services and access to sites on which the Company's equipment is located. Tait Electronics and Motorola manufacture and support some of the key mobile radio equipment and supply the majority of customer handsets. Tyco provides cables and other items for the Broadband business segment. IPSTAR, Eutelsat & Inmarsat provide satellite bandwidth and associated services to the Group's ISP business. In addition the ISP business purchases 'last mile' access lines and wholesale voice minutes and associated bandwidth requirements from, respectively, Chorus and Spark New Zealand.

The Group typically has long term established relationships with each of these suppliers and appropriate commercial contracts are in place. However, the failure of any of these companies to continue to provide services at the required standard and price could have a material impact on the performance of the Group. In particular, there could be a material impact on the performance of the Group if Chorus and Kordia were not to provide access to transmission sites on the current terms while in respect of the Group if Optus were not to continuing providing satellite bandwidth there could be a material impact to the financial performance of the Group.

26 Government grants

In May 2012 a subsidiary signed a contract with the Government to provide wireless broadband services to a number of remote schools around the country. This contract, as part of the Government's Rural Broadband Initiative (RBI), provided the Group with grant funding to help fund the construction of the necessary network infrastructure. Network construction continued throughout the financial period with the last school completed in June 2016.

In April 2014 TeamTalk Limited signed a contract with the Government to provide broadband services to a number of communities on the

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

Chatham Islands. This contract provides the TeamTalk Group with grant funding to help fund the construction of the necessary network infrastructure on the Chatham Islands. Network construction finished in the prior financial period.

As detailed in note 3 this funding is initially recognised as deferred income and then released to profit and loss on a systematic basis over the expected life of the assets.

	GROUP 2016 \$000'S	GROUP 2015 \$000'S
Deferred income opening balance at 1 July	2,089	987
Government grants received during the year	135	1,534
Government grants recognised in other income	(627)	(432)
Deferred income closing balance at 30 June	1,597	2,089
Current	639	612
Non-current	958	1,477
	1,597	2,089

27 Financial instruments

Financial instruments

Exposure to credit, currency, commodity, market and liquidity risks arises in the normal course of the Group's business. The Group manages a number of these risks through negotiated supply contracts.

Credit risk

Credit risk is the risk that the counterparty to a transaction with the Group will fail to discharge its obligations, causing the Group to incur a financial loss. The Group is exposed to credit risk through the normal trade cycle, advances to third parties and through the use of derivative financial instruments.

With the exception of the Group's net interest in finance lease receivables no collateral is required in respect of financial assets. Management has a credit policy in place and the exposure to credit risk is monitored on an on-going basis. Credit evaluations are performed on all customers requiring credit. Reputable financial institutions are used for investing and cash handling purposes.

At balance date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying value of each financial asset in the balance sheet.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds at short notice to meet its financial commitments as they fall due. The Group has internal limits in place in order to reduce the exposure to liquidity risk, as well as having committed lines of credit.

Interest rate risk

The Group enters into derivative contracts in the ordinary course of business to manage interest rate risks. A financial risk management team, composed of senior management, provides oversight for risk management and derivative activities.

Interest rate risk is the risk that the value of the Group's assets and liabilities will fluctuate due to changes in market interest rates. The Group is exposed to interest rate risk primarily through its cash balances and advances, bank borrowings and finance leases.

The Group's policy is to hedge its long term borrowing by fixing or capping the rates of interest payable in order to provide greater certainty. The Group manages its interest rate risk by using interest rate swaps and interest rate options to hedge floating rate debt.

Foreign exchange rate risk

The Group is exposed to movements in FX rates, primarily the NZD/USD, as the pricing for some imported equipment and services is denominated in foreign currencies. The Group primarily manages this risk by entering into foreign exchange forward rate contracts.

Other market price risk

The Group is not exposed to substantial other market price risk arising from financial instruments.

Quantitative disclosures

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

27 Financial instruments (continued)

(A) CREDIT RISK

The Group has not renegotiated the terms of any financial assets which would result in the carrying amount no longer being past due or to avoid a possible past due status.

The Group reviews all overdue debt balances and assesses likelihood of default. Based on this analysis, the Group provides for the potential loss measured in accordance with note 3g(ii).

The maximum exposure to credit risk for trade and other receivables by segment is as follows:

Carrying amount	GROUP 2016 \$000'S	GROUP 2015 \$000'S
Mobile Radio	2,737	2,074
Broadband	1,873	2,113
ISP	2,602	2,712
Trade and other receivables	7,212	6,899

The status of trade receivables at the reporting date is as follows:

Group	GROSS RECEIVABLE 2016 \$000'S	IMPAIRMENT 2016 \$000'S	GROSS RECEIVABLE 2015 \$000'S	IMPAIRMENT 2015 \$000'S
Trade receivables				
Not past due	5,960	-	5,728	-
Past due 0-30 days	1,033	-	808	-
Past due 31-90 days	338	(163)	543	(262)
Past due > 90 days	197	(153)	198	(116)
	7,528	(316)	7,277	(378)

(B) LIQUIDITY RISK

The following table sets out the contractual cash flows for all financial liabilities and derivatives.

Group 2016	CARRYING AMOUNT \$000'S	CONTRACTUAL CASH FLOWS \$000'S	6 MONTHS OR LESS \$000'S	6-12 MONTHS \$000'S	1-2 YEARS \$000'S	2-5 YEARS \$000'S
Secured bank loans	33,500	37,125	755	711	35,659	-
Other unsecured borrowings	186	186	93	-	93	-
Trade and other payables	8,934	8,934	8,934	-	-	-
Total non-derivative liabilities	42,620	46,245	9,782	711	35,752	-
Net inflow / (outflow):						
Interest rate swaps	(722)	(739)	(190)	(198)	(351)	-
Foreign Exchange Forward Rate Agreements	(48)	(49)	(49)	-	-	-
Total derivative inflow / (outflow)	(770)	(788)	(239)	(198)	(351)	-

Group 2015	CARRYING AMOUNT \$000'S	CONTRACTUAL CASH FLOWS \$000'S	6 MONTHS OR LESS \$000'S	6-12 MONTHS \$000'S	1-2 YEARS \$000'S	2-5 YEARS \$000'S
Secured bank loans	35,500	42,013	946	869	1,815	38,383
Trade and other payables	8,854	8,854	8,854	-	-	-
Total non-derivative liabilities	44,354	50,867	9,800	869	1,815	38,383
Net inflow / (outflow):						
Interest rate swaps	(492)	(516)	(74)	(125)	(186)	(131)
Foreign Exchange Forward Rate Agreements	243	245	245	-	-	-
Total derivative inflow / (outflow)	(249)	(271)	171	(125)	(186)	(131)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

(C) INTEREST RATE RISK – REPRICING ANALYSIS

Group 2016	TOTAL	6 MONTHS OR LESS \$000'S	6-12 MONTHS \$000'S	1-2 YEARS \$000'S	2-5 YEARS \$000'S	NON-INTEREST BEARING \$000'S
Fixed & variable rate instruments	\$000'S					
Cash and cash equivalents	522	522	-	-	-	-
Trade and other receivables	7,212	-	-	-	-	7,212
Finance lease receivables	334	88	73	126	50	(3)
Secured bank loans	(33,500)	(33,500)	-	-	-	-
Other unsecured borrowings	(186)	-	-	-	-	(186)
Total fixed and variable rate instruments	(25,618)	(32,890)	73	126	50	7,023
Effect of interest rate swaps	27,000	3,000	10,000	14,000	-	-
Total fixed and variable rate instruments and related derivatives	1,382	(29,890)	10,073	14,126	50	7,023

Group 2015	TOTAL	6 MONTHS OR LESS \$000'S	6-12 MONTHS \$000'S	1-2 YEARS \$000'S	2-5 YEARS \$000'S	NON-INTEREST BEARING \$000'S
Fixed & variable rate instruments	\$000'S					
Cash and cash equivalents	424	424	-	-	-	-
Trade and other receivables	6,899	-	-	-	-	6,899
Finance lease receivables	264	89	74	77	26	(2)
Secured bank loans	(35,500)	(35,500)	-	-	-	-
Total fixed and variable rate instruments	(27,913)	(34,987)	74	77	26	6,897
Effect of interest rate swaps	30,000	-	3,000	3,000	24,000	-
Total fixed and variable rate instruments and related derivatives	2,087	(34,987)	3,074	3,077	24,026	6,897

(D) FOREIGN CURRENCY RISK

As a result of purchases of satellite bandwidth and equipment denominated in United States dollars the Group's financial results can be significantly affected by movements in the NZD/USD exchange rate. The Group seeks to mitigate the effect of its foreign currency exposure by using forward rate exchange contracts.

The Group also has transactional currency exposures. Such exposures arise from purchases in currencies other than the functional currency. The Group's policy is to mitigate this exposure by the use of forward rate exchange contracts.

At balance date the Group had the following exposure to USD foreign currency that is not in designated cash flow hedges.

	GROUP 2016 \$000'S	GROUP 2015 \$000'S
Financial Assets		
Cash and cash equivalents	-	-
Trade and other receivables	9	91
	9	91
Financial Liabilities		
Accounts payable	506	630
Loans and borrowings	-	-
	506	630
Net Statement of Financial Position		
Next financial period's estimated exposure	(2,252)	(7,374)
Forward exchange contracts	1,378	2,369
Net Exposure	(359)	(4,284)

(E) CAPITAL MANAGEMENT

The Group's capital includes share capital and retained earnings.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Company recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Group policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

There have been no material changes in the Group's management of capital during the period.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

27 Financial instruments (continued)

(F) SENSITIVITY ANALYSIS

In managing interest rate risks the Group aims to reduce the impact of short-term fluctuations on the Group's earnings. Over the longer-term, however, permanent changes in interest rates and/or foreign exchange rates will have an impact on profit.

At 30 June 2016 it is estimated that a general increase of a one percentage point in interest rates would decrease the Group's profit before income tax by approximately \$59,780 (2015: \$50,760). Interest rate swaps have been included in this calculation.

Assuming prospective foreign currency exposures, and associated hedging arrangements, as at 30 June 2016 had existed during the entire period it is estimated that had the NZ dollar moved by +/- 10% over the period, with all other variables held constant, that the Group's profit before income tax would have been higher / lower by approximately \$95,000 (2015: \$545,000).

(G) DERIVATIVE FINANCIAL INSTRUMENTS

(i) Interest rate swaps

The Group has a policy of ensuring that at least 50% of its exposure to changes in interest rates on borrowings is on a fixed rate basis. Interest rate swaps, denominated in New Zealand dollars, have been entered into to achieve an appropriate mix of fixed and floating rate exposure within the Group's policy. The swaps mature over the next two years (see the table above) and have fixed swap rates ranging from 3.23% to 4.90% for the Group. (2015 Group: 3.19% - 4.90%).

The Group's interest rate swaps notional amounts and fair values are presented below. .

	GROUP 2016 \$000'S	GROUP 2015 \$000'S
Interest rate swaps		
Notional contract amount	27,000	30,000
Fair value:		
Assets	-	-
Liabilities	(722)	(492)
Net fair value	(722)	(492)

(ii) Foreign Exchange Forward Rate Agreements

The Group has a policy that up to 100% of its exposure to changes in foreign currency exchange rates is covered through forward contracts. At balance date the Group had a number of foreign exchange forward contracts maturing over the 2017 financial year with fixed forward rates to sell NZD (and buy USD) of between 0.6764 and 0.6915 (2015: between 0.7327 and 0.7725).

The notional amount and fair values of the Group's foreign exchange forward contracts are presented below.

	GROUP 2016 \$000'S	GROUP 2015 \$000'S
Foreign exchange forward contracts		
Notional contract amount	1,378	2,369
Fair value:		
Assets	-	243
Liabilities	(48)	-
Net fair value	(48)	243

(H) FAIR VALUES VERSUS CARRYING AMOUNTS

The fair values of financial assets and liabilities, together with the carrying amounts in the Statement of Financial Position, are as follows:

Group	2016 CARRYING AMOUNT \$000'S	2016 FAIR VALUE \$000'S	2015 CARRYING AMOUNT \$000'S	2015 FAIR VALUE \$000'S
Loans and receivables				
Trade and other receivables	7,212	7,212	6,899	6,899
Finance lease receivables	334	334	264	264
Cash and cash equivalents	522	522	424	424
	8,068	8,068	7,587	7,587

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

Held for trading				
Interest rate swaps used for hedging	(722)	(722)	(492)	(492)
Foreign exchange forward rate agreements used for hedging	(48)	(48)	243	243
	(770)	(770)	(249)	(249)
Liabilities measured at amortised cost				
Secured bank loans	(33,500)	(33,500)	(35,500)	(35,500)
Other unsecured borrowings	(186)	(186)	-	-
Trade and other payables	(8,934)	(8,934)	(8,854)	(8,854)
	(42,620)	(42,620)	(44,354)	(44,354)

Estimation of fair values

The methods used in determining the fair values of financial instruments are discussed in note 4 and below.

Interest rates used for determining fair value

The interest rates used to determine fair value are based on the swap yield curve, at the reporting date, for the outstanding term of the interest rate swaps and were as follows:

	2016	2015
Interest rate derivatives	2.22% - 2.40%	3.07% - 3.31%

Fair value hierarchy

Derivative financial instruments carried at fair value can be categorised by valuation method, or hierarchy. The different levels in the hierarchy have been defined as follows:

- 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 (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

The interest rate and foreign currency derivatives are both considered Level 2 instruments in the hierarchy.

All other financial assets and liabilities are classified as Level 1.

There have been no transfers between any levels of classification on the fair value hierarchy (2015: nil).

28 Subsequent Events

There have been no material subsequent events.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF TEAMTALK LIMITED

To the shareholders of TeamTalk Limited



We have audited the accompanying consolidated financial statements of TeamTalk Limited ("the group") on pages 10 to 35.

The financial statements comprise the consolidated statement of financial position as at 30 June 2016, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, for the group.

This report is made solely to the shareholders as a body. Our audit work has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in the 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's shareholders as a body, for our audit work, this report or any of the opinions we have formed.

Directors' responsibility 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 generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards, 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.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the consolidated financial statements.

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

Our firm has also provided other services to the group in relation to taxation and other assurance engagements. Subject to certain restrictions, partners and employees of our firm may also deal with the group on normal terms within the ordinary course of trading activities of the business of the group. These matters have not impaired our independence as auditor of the group. The firm has no other relationship with, or interest in, the group.

Opinion

In our opinion, the consolidated financial statements on pages 10 to 35 comply with generally accepted accounting practice in New Zealand and present fairly, in all material respects, the consolidated financial position of TeamTalk Limited as at 30 June 2016 and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

A handwritten signature in dark ink that reads 'KPMG'.

24 August 2016
Wellington

CODE OF CORPORATE GOVERNANCE

TeamTalk is committed to the principles of good corporate governance and believes that sound governance is a vital foundation for the creation of sustainable value for shareholders. The TeamTalk Board has adopted a set of governance practices that go beyond what is legally required with no material differences to the NZX Corporate Governance Best Practice Code. These principles are enshrined in the formal charters adopted by the board and each of its sub-committees and in the Constitution. Sub-committee charters can be found on the TeamTalk website www.teamtalkinvestor.co.nz/governance.

Board Composition and Procedures

The Board comprises six directors of which five, including the chairman, are independent directors.

The Chairman must always be a non-executive director and may not have the casting vote.

The number of non-executive directors must exceed the number of executive directors and the number of independent directors will reflect, as a minimum, NZSX Listing Rules.

No retirement allowances will be paid to directors.

In order to achieve optimum performance of the board as a whole, individual director and board evaluations are conducted annually.

Under the constitution, one third of the directors are required to retire by rotation and may offer themselves for re-election by shareholders each year.

Board Sub-Committees

The board has three standing sub-committees: Audit & Risk, CityLink Limited and Remuneration. In addition the Nominations sub-committee meets on an as-required basis.

Audit sub-committee:

The Audit sub-committee operates under a separate charter and assists the board with corporate accounting and financial matters as well as taking the lead in risk management matters. The Audit sub-committee has direct communication with independent auditors. The sub-committee is chaired by George Paterson, the other members are Tone Borren, Reg Barrett and Roger Sowry (on an ex-officio basis).

Remuneration sub-committee:

The Remuneration sub-committee also operates under a separate charter and assists the board in reviewing remuneration policies for the board and senior management. This sub-committee is chaired by Tone Borren, the other members being George Paterson and Roger Sowry (on an ex-officio basis).

Nominations sub-committee:

As stated in the Board's own charter, major policy decisions are matters for the Board as a whole. This philosophy underlies the structure of the Nominations sub-committee, which, while operating under its own charter, comprises all of the directors of the Board. The primary task of this sub-committee is the appointment of directors.

Executive Directors

A minimum of 15% of the Managing Director's total potential remuneration must be dependent on the achievement of specific targets aligned to the Company's strategic and/or financial goals as set by the Remuneration sub-committee.

Executive directors will not be paid director fees.

To ensure diversity of reporting and contestability of views there will be a regular programme of senior executives presenting directly to the board.

Auditors

Auditors provide no other services to the Company unless approved by the Audit sub-committee.

The same audit partner cannot be responsible for the audit for more than five years.

The Company will not employ persons from its Auditors in any senior position, unless their employment with that audit firm had ceased at least two years earlier.

Insurances

TeamTalk undertakes an annual review of its insurance programme and any residual uncovered risk. TeamTalk has indemnity insurance for officers and directors.

Conflict of Interest Policy

A director is required to disclose to the Board any actual or potential conflict of interest. Except where authorised by the Company's constitution and the NZSX Listing Rules, the conflicted director may not vote at a meeting where the relevant issues are discussed, or be counted in a quorum.

Share Dealing

TeamTalk has adopted a code of conduct applying to the share dealings by directors, officers and employees. Directors and officers are restricted from trading in the periods immediately before the release of the Company's half yearly and annual results, and at any other time if they are in possession of inside information. Employees don't have any periods when they are automatically precluded from trading but they are prohibited from trading if in possession of inside information. All requests for trades in the Company's shares by directors and officers must be approved in advance of any trades.

STATUTORY INFORMATION

Board of Directors

Directors holding office during the period were:

TEAMTALK LIMITED	BAYCITY COMMUNICATIONS LIMITED	CITYLINK LIMITED
Roger Sowry (Chair)*	Roger Sowry (Chair) ¹	Tone Borren (Chair)
Russ Ballard* ¹	Geoff Davis	Geoff Davis
Reg Barret*	David Ware ²	David Ware ¹
Tone Borren*		
Geoff Davis		
George Paterson*		
Nathan York* ²		
David Ware ³		

* Independent Director

1 Ceased 21 October 2015

2 Appointed 20 January 2016

3 Ceased 22 April 2016

1 Appointed 27 April 2016

2 Ceased 22 April 2016

1 Ceased 22 April 2016

Remuneration of Directors

Details of the nature and amount of emoluments paid during the year to each Director or former Director in the Group are as follows:

	FEES \$000'S	SALARY AND INCENTIVE REMUNERATION \$000'S	OTHER FEES \$000'S
Parent Company Board			
Roger Sowry	50	-	-
Russ Ballard	12	-	-
Reg Barrett	35	-	20
Tone Borren	35	-	20
Geoff Davis	-	-	132
George Paterson	35	-	-
Nathan York	15	-	-
David Ware	-	646	-

STATUTORY INFORMATION

Disclosure of Interest

Directors disclosed interests in the following entities as at 30 June 2016, pursuant to section 140 of the Companies Act 1993:

ROGER SOWRY

Entity	Relationship
Saunders Unsworth Limited	Director
The Electricity Authority	Board Member
Councils of Wellington Institute of Technology and Whitireia Community Polytechnic	Chairman
Huawei (NZ) Advisory Council	
Indue NZ advisory board	Member
Homecare Medical (GP) Limited	Chairman
WelTec Student Accommodation Limited	Director

REG BARRETT

Entity	Relationship
Work and Income Board	Director
Mobile Intelligence Limited	Chairman
Xlerate Technologies Limited	Chairman
Vxceed Technologies FZ LLC	Chairman
Domel & Associates	Shareholder
The Simpl Group Limited	Shareholder
Tactix Limited	Chairman
MBBO Holdings	Shareholder

NATHAN YORK

Entity	Relationship
Tuaropaki Trust	Officer
Ahu Whenua Trust, Whaiti Kuranui 2D4 Sec1B	Chairman

Relevant Interest in Shares

No disclosures as regards acquisitions or disposals of TeamTalk shares were made by TeamTalk directors during the current year.

GEOFF DAVIS

Entity	Relationship
Armillary Limited	Employee
BayCity Communications Limited (and associated subsidiary companies)	Director
CityLink Limited	Director

GEORGE PATERSON

Entity	Relationship
Celtic Services Limited	Director & shareholder
Mt Work Limited	Director & shareholder
Luxson Limited	Director & shareholder
Light ED Holdings Limited	Director & shareholder
Ecopoint Limited	Shareholder
Pharmazen Limited	Shareholder

TONE BORREN

Entity	Relationship
CityLink Limited	Director
Holmes Group Limited	Chairman
Holmes Solutions Limited	Director
Pikselin Limited	Director
SFX 2010 Limited	Director
Shift Limited	Director
The NZ Hockey Federation Inc	Director
YouDo Limited	Chairman

Directors' Relevant Interests at 30 June 2016

Director	Number of ordinary shares	Registered Holder(s)
Roger Sowry	10,000	RM Sowry & SA Sowry (jointly)
Reg Barrett	nil	
Tone Borren	47,394	Custodial Services Limited
Geoff Davis	nil	
George Paterson	nil	
Nathan York	nil	

STATUTORY INFORMATION

Executive Employees' Remuneration

The following number of Group employees (excluding Directors but including former employees) received total remuneration of at least \$100,000 during the accounting period:

	2016	2015
\$100,000 - \$109,999	5	6
\$110,000 - \$119,999	6	4
\$120,000 - \$129,999	3	2
\$130,000 - \$139,999	8	7
\$140,000 - \$149,999	4	2
\$150,000 - \$159,999	2	-
\$160,000 - \$169,999	2	2
\$170,000 - \$179,999	-	-
\$180,000 - \$189,999	1	1
\$190,000 - \$199,999	-	2
\$200,000 - \$209,999	-	2
\$210,000 - \$219,999	-	2
\$220,000 - \$229,999	-	1
\$230,000 - \$239,999	1	-
\$240,000 - \$249,999	-	-
\$250,000 - \$259,999	1	-
\$260,000 - \$269,999	-	1

Gender Composition of Directors and Officers

As required by NZSX Listing Rule 10.4.5(j) the following table shows the breakdown of Directors and Officers (defined as the senior executive of the group and any of their direct reports) within each company of the TeamTalk Group. Executive Directors are included in both the count of Directors and Officers.

AS AT 30 JUNE 2016	DIRECTORS		OFFICERS	
	MALE	FEMALE	MALE	FEMALE
TeamTalk Limited	6	-	3	-
BayCity Communications Limited	2	-	-	-
CityLink Limited	2	-	2	-

AS AT 30 JUNE 2015	DIRECTORS		OFFICERS	
	MALE	FEMALE	MALE	FEMALE
TeamTalk Limited	7	-	3	-
BayCity Communications Limited	2	-	2	-
CityLink Limited	3	-	1	-

SHAREHOLDER INFORMATION

Shareholding

The top 20 shareholders and shareholding of TeamTalk Limited at 25 July 2016 were:

INVESTOR NAME	ORDINARY SHARES	% OF ISSUED CAPITAL
Barry William Payne & Brett Gould & Sandra Tui Payne	1,222,281	4.31%
Tuaropaki Communications Limited	1,137,249	4.01%
New Zealand Central Securities Depository Limited	931,976	3.29%
Forsyth Barr Custodians Ltd	814,897	2.87%
Jarden Custodians Limited	690,000	2.43%
Sydney Bruce Crowther & Faith Palaret & Stephen Palaret	528,837	1.86%
Custodial Services Limited	450,570	1.59%
FNZ Custodians Limited	400,000	1.41%
Deborah Mary Thomson & Mark James Thomson	398,561	1.40%
David Hugh Paget Walpole & Erica Julia Walpole	300,000	1.06%
Selenium Corporation Limited	300,000	1.06%
Andrew John Fleck	300,000	1.06%
FNZ Custodians Limited	299,599	1.06%
Ace Finance Limited	298,151	1.05%
Neil Andrew De Wit	282,423	1.00%
Brian Winston Jackson	272,881	0.96%
Kevin Ivor Brown & Karen Anne Brown & Murray Ian Withers	264,426	0.93%
Richard Barton Adams & Allison Ruth Adams	200,000	0.70%
Roy Albert Wilson	200,000	0.70%
Craig John Thompson	163,950	0.58%
		33.33%

Size of Holdings

The details set out below were as at 25 July 2016:

RANGE	NUMBER OF HOLDERS	%	NUMBER OF ORDINARY SHARES	% OF ISSUED CAPITAL
1-1,000	113	6.95%	83,003	0.29%
1,001-5,000	693	42.59%	2,190,654	7.72%
5,001-10,000	349	21.45%	2,826,548	9.96%
10,001-50,000	390	23.97%	8,671,064	30.57%
50,001-100,000	47	2.89%	3,232,707	11.40%
Greater than 100,000	35	2.15%	11,365,018	40.06%
	1,627	100.00%	28,368,994	100.00%

Substantial Security Holders

Pursuant to section 293 of the Financial Markets Conduct Act 2013, there were, at 30 June 2016, no Substantial Security Holders.

TEAMTALK LIMITED CORPORATE DIRECTORY

REGISTERED OFFICE

Level 6, 25 Cambridge Terrace,
Wellington, New Zealand

HEAD OFFICE

Level 6, 25 Cambridge Terrace,
Wellington, New Zealand
Phone: (04) 802 1470
Fax: (04) 802 1490
www.teamtalk.co.nz

BRANCHES

AUCKLAND

2 Robert Street,
Ellerslie, Auckland
Phone: (09) 580 9282

CHRISTCHURCH

Unit 2, 49 Sir William
Pickering Drive, Burnside,
Christchurch
Phone: (03) 357 3005

SUBSIDIARIES

CITYLINK LIMITED

Level 6, 25 Cambridge Terrace,
Wellington, New Zealand
Phone: (04) 917 0200
Fax: (04) 385 9004
www.citylink.co.nz

BAYCITY COMMUNICATIONS LIMITED (TRADING AS FARMSIDE)

8 Butler Street,
Timaru, New Zealand
Phone: (03) 687 9727
Fax: (03) 688 1557
www.farmside.co.nz

AUDITORS

KPMG

10 Customhouse Quay,
Wellington, New Zealand

SOLICITORS

Crengle, Shreves & Ratner
105 - 109 The Terrace,
Wellington, New Zealand

BANKERS

Westpac Banking Corporation
10 - 14 Courtenay Place,
Wellington, New Zealand

REGISTRAR

Link Market Services Limited
138 Tancred Street,
Ashburton, New Zealand

