NZ
ME.

NEW ZEALAND
MEDIA AND
ENTERTAINMENT

Consolidated Interim Financial Statements

NZME Limited

FOR THE SIX MONTHS ENDED 30 JUNE 2019

CONTENTS

Consolidated Interim Financial Statements

for the six months ended 30 June 2019 (unaudited)

* In an attempt to make these financial statements easier to read, the notes to the financial statements have been grouped into six sections; aimed at grouping items of a similar nature together. The Basis of Preparation section presents a summary of material information and general accounting policies that are necessary to understand the basis on which these consolidated interim financial statements have been prepared. The material accounting policies used in the preparation of these consolidated interim financial statements are generally consistent with those used in the audited consolidated financial statements for the year ended 31 December 2018. Where there have been changes to accounting policies or the Directors consider it necessary to disclose an accounting policy in these consolidated interim financial statements, accounting policies have been included in the relevant note. Key judgments and estimates relevant to a particular note are also included in the relevant note, and are clearly marked. A summary of the key judgments and estimates is also included under the Basis of Preparation section on page 10.

DIRECTORS' STATEMENT

The Directors are pleased to present the consolidated interim financial statements of NZME Limited (the "Company") and its subsidiaries (together the "Group") for the six months ended 30 June 2019, incorporating the consolidated interim financial statements and the auditor's independent review report.

The Directors are responsible, on behalf of the Company, for presenting these consolidated interim financial statements in accordance with applicable New Zealand legislation and New Zealand equivalent to International Accounting Standard 34: *Interim Financial Reporting* and International Accounting Standard 34: *Interim Financial Reporting* and the NZX Listing Rules.

The consolidated interim financial statements for the Group as presented on pages 4 to 27 are signed on behalf of the Board of Directors, and are authorised for issue on the date below.

For and on behalf of the Board of Directors

Peter Cullinane
Director

Carol Campbell
Director

Date: 26 August 2019

CONSOLIDATED INTERIM INCOME STATEMENT

for the six months ended 30 June 2019 (unaudited)

	Note	**June 2019 $'000**	June 2018 $'000
Revenue	2.1	**180,741**	188,904
Finance and other income	2.1	**399**	497
Total revenue and other income	2.1	**181,140**	189,401
Expenses from operations before finance costs, depreciation, amortisation		**(157,750)**	(168,697)
Depreciation & amortisation	2.3.2	**(17,010)**	(13,089)
Finance costs	2.3.2	**(4,953)**	(2,195)
Profit before income tax expense		**1,427**	5,420
Income tax expense		**(477)**	(1,763)
Profit for the period		**950**	3,657
Profit for the period is attributable to:			
Owners of the Company		**1,176**	3,657
Non-controlling interests		**(226)**	-
		950	3,657

		Cents	Cents
Earnings per share attributable to the ordinary shareholders of the Company			
Basic / diluted earnings per share	2.2	**0.60**	**1.87**

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

CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 June 2019 (unaudited)

	Note	**June 2019 $'000**	June 2018 $'000
Profit for the period		**950**	3,657
Other comprehensive income			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		**(2)**	9
Other comprehensive income, net of tax		**(2)**	9
Total comprehensive income		**948**	3,666
Total comprehensive income attributable to:			
Owners of the Company		**1,174**	3,666
Non-controlling interests		**(226)**	-
		948	3,666

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

CONSOLIDATED INTERIM BALANCE SHEET

as at 30 June 2019 (unaudited)

	Note	**June 2019 $'000**	December 2018 $'000
Current assets			
Cash and cash equivalents		**10,864**	11,717
Trade and other receivables		**54,710**	58,694
Inventories		**2,247**	1,866
Income taxation		**2,221**	898
Total current assets		**70,042**	73,175
Non-current assets			
Intangible assets	3.1	**327,860**	329,911
Property, plant and equipment	3.2	**41,500**	47,145
Right-of-use assets	3.3	**74,387**	-
Capital work in progress	3.4	**10,322**	8,758
Other financial assets		**3,788**	3,788
Other receivables		**1,046**	-
Total non-current assets		**458,903**	389,602
Total assets		**528,945**	462,777
Current liabilities			
Trade and other payables		**50,382**	52,036
Current lease liabilities		**11,836**	-
Total current liabilities		**62,218**	52,036
Non-current liabilities			
Trade and other payables		**-**	13,665
Non-current lease liabilities		**82,935**	-
Interest bearing liabilities	4.2	**101,053**	109,992
Deferred tax liabilities		**968**	448
Total non-current liabilities		**184,956**	124,105
Total liabilities		**247,174**	176,141
Net assets		**281,771**	286,636
EQUITY			
Share capital		**360,363**	360,363
Reserves		**3,114**	2,998
Retained earnings		**(82,417)**	(77,662)
Total Company interest		**281,060**	285,699
Non-controlling interests		**711**	937
Total equity		**281,771**	286,636

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

CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2019 (unaudited)

		Attributable to owners of the company					
	Note	Share capital $'000	Reserves $'000	Retained earnings $'000	**Total $'000**	Non-controlling interests $'000	**Total Equity $'000**
Balance at 1 January 2018		360,363	2,385	(73,716)	**289,032**	-	**289,032**
Profit for the period		-	-	3,657	**3,657**	-	**3,657**
Other comprehensive income		-	9	-	**9**	-	**9**
Total comprehensive income		-	9	3,657	**3,666**	-	**3,666**
Dividends paid		-	-	(11,761)	**(11,761)**	-	**(11,761)**
Supplementary dividends paid		-	-	(1,404)	**(1,404)**	-	**(1,404)**
Tax credit on supplementary dividends		-	-	1,404	**1,404**	-	**1,404**
Share based payments expense		-	186	-	**186**	-	**186**
Balance at 30 June 2018		360,363	2,580	(81,820)	**281,123**	-	**281,123**
Balance at 1 January 2019		360,363	2,998	(77,662)	**285,699**	937	**286,636**
Adoption of NZ IFRS 16	3.3.1	-	-	(5,931)	**(5,931)**	-	**(5,931)**
Restated balance at 1 January 2019		360,363	2,998	(83,593)	**279,768**	937	**280,705**
Profit for the period		-	-	1,176	**1,176**	(226)	**950**
Other comprehensive income		-	(2)	-	**(2)**	-	**(2)**
Total comprehensive income		-	(2)	1,176	**1,174**	(226)	**948**
Share based payments expense		-	118	-	**118**	-	**118**
Balance at 30 June 2019		360,363	3,114	(82,417)	**281,060**	711	**281,771**

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

CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

for the six months ended 30 June 2019 (unaudited)

	Note	**June 2019 $'000**	June 2018 $'000
Cash flows from operating activities			
Receipts from customers		**182,837**	188,501
Payments to suppliers and employees	3.3.4	**(158,151)**	(171,747)
Dividends received		**79**	141
Interest received		**53**	48
Interest paid on bank facilities		**(1,994)**	(2,040)
Interest paid on leases	3.3.4	**(2,451)**	-
Income taxes paid		**(2,030)**	(11,851)
Net cash inflows / (outflows) from operating activities	4.3	**18,343**	3,052
Cash flows from investing activities			
Payments for property, plant and equipment and intangible assets (including work in progress)		**(4,465)**	(7,110)
Proceeds from sale of property, plant and equipment		**11**	5
Net cash inflows / (outflows) from investing activities		**(4,454)**	(7,105)
Cash flows from financing activities			
Proceeds from borrowings		**27,500**	63,400
Repayments of borrowings		**(36,500)**	(44,600)
Borrowing costs paid		**(36)**	-
Dividends paid to Company's shareholders		**-**	(11,761)
Payments for lease liability principal	3.3.4	**(5,706)**	-
Net cash inflows / (outflows) from financing activities		**(14,742)**	7,039
Net increase / (decrease) in cash and cash equivalents		**(853)**	2,986
Cash and cash equivalents at beginning of the period		**11,717**	9,570
Cash and cash equivalents at end of the period		**10,864**	12,556

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

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

1.0 BASIS OF PREPARATION

1.1 REPORTING ENTITY AND STATUTORY BASE

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

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

1.2 GENERAL ACCOUNTING POLICIES

These consolidated interim financial statements have been prepared in accordance with New Zealand equivalent to International Accounting Standard 34: *Interim Financial Reporting*, International Accounting Standard 34: *Interim Financial Reporting* and the NZX Listing Rules.

The consolidated interim financial statements do not include all notes of the type normally included in an annual financial report. Accordingly, these consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements for the year ended 31 December 2018 and any public announcements made by NZME Limited during the interim reporting period and up to the date of these consolidated interim financial statements. These consolidated interim financial statements are presented for the Group.

The material accounting policies used in the preparation of these consolidated interim financial statements are generally consistent with those used in the audited consolidated financial statements for the year ended 31 December 2018. Where there have been changes to accounting policies or the Directors consider it necessary to disclose an accounting policy in these consolidated interim financial statements, accounting policies have been included in the relevant note.

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

These consolidated interim financial statements are presented in New Zealand dollars, which is the Company's functional and the Group's presentation currency, and rounded to the nearest thousand, except where otherwise stated.

These consolidated interim financial statements were approved for issue by the Board of Directors on 26 August 2019. These consolidated interim financial statements have not been audited, but have been reviewed in accordance with New Zealand Standard on Review Engagement 2410: *Review of Financial Statements Performed by the Independent Auditor of the Entity.*

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

1.3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the consolidated interim financial statements requires the use of certain significant judgments, accounting estimates and assumptions, including judgments, estimates and assumptions concerning the future. The estimates and assumptions are based on historical experiences and other factors that are considered to be relevant. The resulting accounting estimates will by definition, seldom equal the related actual results and are reviewed on an ongoing basis. Significant areas of estimation and judgment in these consolidated interim financial statements are consistent with those disclosed in the audited consolidated financial statements for the year ended 31 December 2018.

1.4 NEW STANDARDS AND INTERPRETATIONS ADOPTED IN THE CURRENT PERIOD

NZ IFRS 16: *Leases* was adopted on 1 January 2019. The new standard requires a lessee to recognise a lease liability that reflects future lease payments and a right-of-use asset for virtually all lease contracts. Interest and depreciation charges on the lease liability and right-of-use assets replace the operating expenses that were incurred under NZ IAS 17. Note 3.3.1 provides further information on the impact on the Group of adopting NZ IFRS 16.

There have been no other changes to accounting policies and no other new standards adopted during the period.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

2.0 GROUP PERFORMANCE

2.1 DISAGGREGATION OF REVENUE AND OTHER INCOME

	Print $'000	Radio $'000	Digital & e-Commerce $'000	**Total $'000**
For the six months ended 30 June 2019				
Advertising	51,096	53,032	26,571	**130,699**
Circulation & subscription	38,516	-	212	**38,728**
External printing & distribution	3,948	-	-	**3,948**
Other	3,077	428	1,431	**4,936**
Segment revenue from integrated media and entertainment activities	96,637	53,460	28,214	**178,311**
Shared services centre				**1,701**
Events				**729**
Total revenues from external customers				**180,741**
Dividends				**79**
Rental income from sub-leases				**256**
Gain on disposal of property, plant and equipment				**11**
Other income				**346**
Finance income				**53**
Total finance and other income				**399**
Total revenue and other income				**181,140**

	Print $'000	Radio $'000	Digital & e-Commerce $'000	**Total $'000**
For the six months ended 30 June 2018				
Advertising	55,510	53,117	28,807	**137,434**
Circulation & subscription	40,404	-	-	**40,404**
External printing & distribution	4,293	-	-	**4,293**
Other	3,378	327	248	**3,953**
Segment revenue from integrated media and entertainment activities	103,585	53,444	29,055	**186,084**
Shared services centre				**1,702**
Events				**1,118**
Total revenues from external customers				**188,904**
Dividends				**141**
Rental income from sub-leases				**308**
Other income				**449**
Finance income				**48**
Total finance and other income				**497**
Total revenue and other income				**189,401**

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

2.2 EARNINGS PER SHARE

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

	June 2019 $'000	June 2018 $'000
Reconciliation of earnings used in calculating basic / diluted earnings per share ("EPS")		
Profit attributable to owners of the parent entity	**1,176**	3,657
	June 2019 Number	June 2018 Number
Weighted average number of shares		
Weighted average number of shares for calculating basic EPS	**196,011,282**	196,011,282
	June 2019 Cents	June 2018 Cents
Basic / diluted earnings per share		
Total basic / diluted earnings per share attributable to owners of the parent entity	**0.60**	1.87

2.3 SEGMENT INFORMATION

2.3.1 Determination and description of segments

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

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

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

2.3.2 Segment revenues and results

The segment information provided to the Directors and Executive Team for the six months ended 30 June 2019 is as follows:

	June 2019 $'000	June 2018 $'000
Revenues from external customers by channel		
Print	**96,637**	103,585
Radio	**53,460**	53,444
Digital & e-Commerce	**28,214**	29,055
Segment revenue from integrated media and entertainment activities	**178,311**	186,084
Revenue from shared services centre	**1,701**	1,702
Events	**729**	1,118
Total revenues from external customers	**180,741**	188,904
Dividend income	**79**	141
Rental income from sub-leases[A]	**256**	308
Gain on disposal of property, plant and equipment	**11**	-
Expenses from operations before finance costs, depreciation, amortisation and exceptional items	**(153,477)**	(166,162)
Total segment adjusted EBITDA[B]	**27,610**	23,191
Depreciation and amortisation on owned assets	**(10,599)**	(13,089)
Depreciation on right-of-use assets	**(6,411)**	-
Total depreciation and amortisation	**(17,010)**	(13,089)
Interest expense on bank facilities	**(2,502)**	(2,195)
Interest expense on leases	**(2,451)**	-
Total finance cost	**(4,953)**	(2,195)
Interest income	**53**	48
Exceptional items:		
Redundancies and associated costs[C]	**(3,193)**	(2,096)
Costs in relation to one-off projects[D]	**(1,080)**	(439)
Profit before tax from continuing operations	**1,427**	5,420

A Rental income of $166,506 was received from the sub-lease of right-of-use assets.

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

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

D 2019 costs are primarily in relation to the disposal of the Group's investment in Ratebroker Limited and historical holiday pay adjustments. 2018 costs primarily relate to external consultants assisting with the proposed merger with Stuff Ltd.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

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

2.3.3 Impact of NZ IFRS 16 on the segment results and earnings per share

The following table shows the adjustments to profit or loss for the period as a result of the adoption of NZ IFRS 16.

	Pre NZ IFRS 16 $'000	Adjustment $'000	**NZ IFRS 16 $'000**
For the six months ended 30 June 2019			
Total revenue and other income excluding interest income	181,087	-	**181,087**
Segment expenses	(161,689)	8,212	**(153,477)**
Total segment adjusted EBITDA	19,398	8,212	**27,610**
Depreciation & amortisation	(10,599)	(6,411)	**(17,010)**
Finance costs	(2,502)	(2,451)	**(4,953)**
Interest income	53	-	**53**
Exceptional items	(4,273)	-	**(4,273)**
Profit before income tax expense	2,077	(650)	**1,427**
Tax expense	(659)	182	**(477)**
Profit for the period	1,418	(468)	**950**
(Less): non-controlling interests	(226)	-	**(226)**
Attributable to the owners of the company	1,644	(468)	**1,176**

	Cents	Cents	**Cents**
Earnings per share attributable to the ordinary shareholders of the Company			
Basic / diluted earnings per share	0.84	(0.24)	**0.60**

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

3.0 OPERATING ASSETS & LIABILITIES

3.1 INTANGIBLE ASSETS

	Goodwill $'000	Software $'000	Masthead Brands $'000	Radio Licences $'000	Brands $'000	**Total $'000**
As at 31 December 2018						
Cost	166,397	68,633	146,976	77,547	59,079	**518,632**
Accumulated amortisation and impairment	(95,614)	(51,809)	-	(41,298)	-	**(188,721)**
Net book value	70,783	16,824	146,976	36,249	59,079	**329,911**
For the period ended 30 June 2019						
Opening net book amount	70,783	16,824	146,976	36,249	59,079	**329,911**
Additions	-	2	-	-	-	**2**
Amortisation	-	(2,790)	-	(1,478)	-	**(4,268)**
Adjustment and transfers	-	(5)	-	-	-	**(5)**
Transfers from capitalised work in progress	-	2,220	-	-	-	**2,220**
Net book value	70,783	16,251	146,976	34,771	59,079	**327,860**
As at 30 June 2019						
Cost	166,397	70,855	146,976	77,547	59,079	**520,854**
Accumulated amortisation and impairment	(95,614)	(54,604)	-	(42,776)	-	**(192,994)**
Net book value	70,783	16,251	146,976	34,771	59,079	**327,860**

Significant judgment: As disclosed in note 2.3.1 the Group has one reportable segment - being "Intergrated Media and Entertainment". The Directors have also determined that this is the only cash generating unit for the purposes of impairment testing. In the consolidated financial statements for the year ended 31 December 2018 it was stated that Management had identified some reasonably possible changes to key assumptions which could result in impairment. Management has conducted a review of possible impairment indicators as at 30 June 2019 and concluded that there are no such indicators which would require a full impairment assessment to be performed. Specifically, Management has considered the trading performance of the Group compared to forecasts used in the impairment assessment at 31 December 2018 as well as the market capitalisation of the Group at 30 June 2019 which has increased from 31 December 2018.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

3.2 PROPERTY, PLANT AND EQUIPMENT

	Freehold land $'000	Buildings $'000	Plant and equipment $'000	**Total $'000**
As at 31 December 2018				
Cost or fair value	1,165	14,697	335,602	**351,464**
Accumulated depreciation and impairment	-	(6,254)	(298,065)	**(304,319)**
Net book amount	1,165	8,443	37,537	**47,145**
For the period ended 30 June 2019				
Opening net book amount	1,165	8,443	37,537	**47,145**
Additions	-	-	14	**14**
Disposals	-	-	(1)	**(1)**
Depreciation	-	(617)	(5,714)	**(6,331)**
Other adjustments	-	(1)	8	**7**
Transfers from capitalised work in progress	-	-	666	**666**
Net book amount	1,165	7,825	32,510	**41,500**
As at 30 June 2019				
Cost or fair value	1,165	14,697	336,238	**352,100**
Accumulated depreciation and impairment	-	(6,872)	(303,728)	**(310,600)**
Net book amount	1,165	7,825	32,510	**41,500**

3.3 RIGHT-OF-USE ASSETS

Significant judgments: The Group has elected to use the Modified Restrospective Approach in adopting NZ IFRS 16 and has further decided to recognise the right-of-use assets in relation to the Graham Street and Ellerslie Print Plant leases as if the standard had been applied from the commencement date of these leases using the Group's incremental borrowing rate and recognising an equity adjustment. For all other leases the right-of-use asset recognised on adoption is equal to the lease liability calculated on 1 January 2019. The Group has also elected not to reassess whether a contract is, or contains a lease, at the date of initial application. Instead, for contracts entered into before the transition date the Group relied upon its assessment made applying NZ IAS 17 and NZ IFRIC 4. The Group has used the practical expedient of applying a single discount rate to a portfolio of assets and has further applied the same incremental borrowing rate of 5% to each portfolio of assets. In determining the discount rate to use, Management reviewed publicly available rates for Government Bonds, Westpac swap rates and Treasury Risk-free discount rates and then applied an adjustment to these rates to apply a company specific credit risk. The Group has also used the practical expedient of relying on previous assessments of whether leases are onerous.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

	Buildings $'000	Transmission $'000	Vehicles $'000	Other $'000	**Total $'000**
For the period ended 30 June 2019					
At adoption	69,149	9,419	1,949	130	**80,647**
Depreciation	(4,158)	(1,779)	(417)	(57)	**(6,411)**
Adjustments	73	78	-	-	**151**
Net book amount	65,064	7,718	1,532	73	**74,387**

Accounting policy

The Group leases various offices, transmission towers, vehicles and other equipment which were all classified as operating leases until 31 December 2018. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a staight line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding lease liability. Each lease payment is allocated between the lease principal and finance costs. Finance costs are charged to profit or loss over the lease period and the right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Asssets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable,
- variable lease payments that are based on an index or a rate,
- amounts expected to be payable by the lessee under residual value guarantees,
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

3.3.1 Impact of NZ IFRS 16 adoption

At 31 December 2018 the Group had lease commitments of $126,681,834 and lease liabilities of $14,497,818 in relation to lease incentives received on operating leases and NZ IAS 17 accruals. The commitments included leases for property, transmission sites, motor vehicles and other equipment. The following table shows adjustments made to the balance sheet on adoption of NZ IFRS 16 on 1 January 2019.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

	Total $'000
As at 1 January 2019	
Right-of-use assets	**104,612**
Accumulated depreciation	**(23,965)**
Total assets	**80,647**
Current lease incentive	**(833)**
Current lease liabilities	**11,505**
Non-current NZ IAS 17 lease adjustment	**(4,637)**
Non-current lease incentive	**(9,028)**
Non-current lease liabilites	**88,820**
Deferred tax liabilities[A]	**751**
Total liabilities	**86,578**
Net assets	**(5,931)**
EQUITY	
Retained earnings adjustment on adoption of NZ IFRS 16	**(5,931)**
Total Company interest	**(5,931)**

[A] At adoption of NZ IFRS 16 the outstanding portion of the Graham Street lease incentive gave rise to a deferred tax liability which was partially offset by a deferrred tax asset in relation to the interest on lease liabilities, and depreciation on the right-of-use assets, being greater than the sums paid to lessors under the lease agreements in relation to the Graham Street and Ellerslie Print Plant leases.

3.3.2 Reconciliation of lease commitments to lease liabilities

	Total $'000
Operating lease commitments disclosed as at 31 December 2018	**126,682**
As at 1 January 2019	
Discounted at the incremental borrowing rate at the date of intial application	**100,203**
Add: CPI increases not contained in lease commitments schedule	**369**
Add: motor vehicles not in 31 December lease commitments	**105**
(Less): service component of motor vehicle leases included in lease commitments	**(352)**
Net present value of future lease liabilities	**100,325**
Current lease liabilities	**11,505**
Non-current lease liabilities	**88,820**
Total future lease liabilites	**100,325**

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

3.3.3 Impact of NZ IFRS 16 on the balance sheet at 30 June 2019

Assets and liabilities have both increased as a result of the change in accounting policy in relation to leases. At 30 June 2019 the balance sheet accounts affected by the change are detailed in the table below:

	Pre NZ IFRS 16 $'000	Adjustment $'000	**NZ IFRS 16 $'000**
Right-of-use assets	-	74,387	**74,387**
Impact on total assets		74,387	
Current lease incentive	833	(833)	**-**
Current lease liabilities	-	11,836	**11,836**
Non-current NZ IAS 17 lease adjustment	5,109	(5,109)	**-**
Non-current lease incentive	8,611	(8,611)	**-**
Non-current lease liabilities	-	82,935	**82,935**
Deferred tax liabilities	400	568	**968**
Impact on total liabilities		80,786	
Impact on net assets		(6,399)	

3.3.4 Impact of NZ IFRS 16 on the statement of cash flows for the six months ended 30 June 2019

Cash outflows from leases for the six months ended 30 June 2019 are detailed in the table below. For the period ended 30 June 2018 the equivalent cash outflows were included in cash flows from operating activities as payments to suppliers and employees.

	Total $'000
For the period ended 30 June 2019	
Interest paid on leases (operating activities)	**(2,451)**
Payments for lease liability principal (financing activities)	**(5,706)**
Total cash outflows from leases	**(8,157)**

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

3.4 CAPITAL WORK IN PROGRESS

	June 2019 $'000
As at 31 December 2018	**8,758**
Additions	**4,450**
Transfers to property, plant and equipment	**(666)**
Transfers to intangible assets	**(2,220)**
As at 30 June 2019	**10,322**

Capital work in progress is transferred to the relevant asset category once the project is completed. Capitalised work in progress is not depreciated or amortised prior to being transferred to the relevant asset category.

3.5 NET TANGIBLE ASSETS

Net tangible assets per share is a non-GAAP measure that is required to be disclosed by the NZX Listing Rules. The calculation of the Group's net tangible assets per share and its reconciliation to the consolidated balance sheet is presented below:

	June 2019 $'000	December 2018 $'000
Total assets	**528,945**	462,777
(Less): intangible assets	**(327,860)**	(329,911)
(Less): total liabilities	**(247,174)**	(176,141)
Net tangible assets	**(46,089)**	(43,275)
Number of shares issued (in thousands)	**196,011**	196,011
Net tangible assets per share	**($0.24)**	($0.22)

3.5.1 Impact of NZ IFRS 16 on the Group's net tangible assets per share as at 30 June 2019

	Pre NZ IFRS 16 $'000	Adjustment $'000	**NZ IFRS 16 $'000**
Total assets	454,558	74,387	**528,945**
(Less): intangible assets	(327,860)	-	**(327,860)**
(Less): total liabilities	(166,388)	(80,786)	**(247,174)**
Net tangible assets	(39,690)	(6,399)	**(46,089)**
Number of shares issued (in thousands)			**196,011**
Net tangible assets per share	($0.20)		**($0.24)**

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

4.0 CAPITAL MANAGEMENT

4.1 DIVIDENDS

4.1.1 Determination and description of segments

On 18 February 2019 the Board of Directors confirmed that NZME Ltd would not be declaring a final dividend for the year to 31 December 2018.

4.1.2 Dividends declared after balance date

The Board of Directors have not declared an interim dividend for the year to 31 December 2019.

4.1.3 Franking and imputation credits

	June 2019 $'000	December 2018 $'000
Imputation credits available for subsequent reporting periods based on the New Zealand 28% tax rate for the Group	**NZ$ 10,314**	NZ$ 8,259
Franking credits available to the Company for subsequent reporting periods based on the Australia 30% tax rate for the Group	**AU$ 0[A]**	AU$ 0[A]

[A] Although the Company does not have any franking credits available for use, other entities within the Group have AU$10,828,676 (December 2018: AU$10,828,676) available that Directors expect to be available to the Company in future periods.

4.2 INTEREST BEARING LIABILITIES

	June 2019 $'000	December 2018 $'000
Non-current interest bearing liabilities		
Bank loans – secured	**101,500**	110,500
Deduct:		
Capitalised borrowing costs	**(447)**	(508)
Total non-current interest bearing liabilities	**101,053**	109,992
Net debt		
(Less): cash and cash equivalents	**(10,864)**	(11,717)
Total debt less cash and cash equivalents	**90,189**	98,275

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

The Group is funded from a combination of its own cash reserves and NZ$150 million bilateral bank loan facility, which NZME refinanced on 21 November 2018, of which $101.5 million (2018: $110.5 million) is drawn and $48.5 million (2018: $39.5 million) is undrawn as at 30 June 2019. The new facility limit will step down by $10 million annually from 1 January 2020. This facility expires on 1 January 2022.

The interest rate for the drawn facility is the BKBM plus credit margin.

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

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

4.3 CASH FLOW INFORMATION

	June 2019 $'000	June 2018 $'000
Reconciliation of cash		
Cash at end of the period, as shown in the statements of cash flows, comprises:		
Cash and cash equivalents	**10,864**	12,556
Reconciliation of net cash inflows / (outflows) from operating activities to profit for the period:		
Profit for the period	**950**	3,657
Depreciation and amortisation expense	**17,010**	13,089
Borrowing cost amortisation	**97**	53
Net (gain) on sale of non-current assets	**(11)**	-
Change in current / deferred tax payable	**(1,554)**	(10,087)
Share based payment expense	**118**	186
Changes in assets and liabilities net of effect of acquisitions:		
Trade and other receivables	**4,189**	3,449
Inventories	**(382)**	372
Prepayments	**(1,250)**	(740)
Trade and other payables and employee benefits	**(824)**	(6,927)
Net cash inflows from operating activities	**18,343**	3,052

4.4 FAIR VALUE MEASUREMENT

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

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

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

4.4.1 Fair value hierarchy

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

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

4.4.2 Fair value hierarchy

	June 2019 $'000	December 2018 $'000
Recurring fair value measurements (Level 3)		
Financial assets		
There are no financial assets carried at fair value. Other financial assets of $3,787,765 (December 2018: $3,787,765) are held at cost and therefore have been excluded from this table.		
Non-financial assets		
Freehold land and buildings		
Freehold land	**1,165**	1,165
Buildings (excluding leasehold improvements)	**117**	131
Total non-financial assets	**1,282**	1,296

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

4.4.3 Disclosed fair values

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

The carrying amounts of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. There are no outstanding non-current receivables as at 30 June 2019 or 31 December 2018 (level 3).

The fair value of interest bearing liabilities disclosed in note 4.2 is estimated by discounting the future contractual cash flows at the current market interest rates that are available to the group for similar financial instruments. For the period ending 30 June 2019, the borrowing rates were determined to be between 4.0% and 4.6% (December 2018: between 3.3% and 4.5%), depending on the type of borrowing. The fair value of borrowings approximates the carrying amount, as the impact of discounting is not significant (level 2).

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

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

Recurring fair value measurements

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

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

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

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

5.0 GROUP STRUCTURE AND INVESTMENTS IN OTHER ENTITIES

5.1 CONTROLLED ENTITIES

The consolidated interim financial statements incorporate the assets, liabilities and results of the subsidiaries listed below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the Group, and the proportion of ownership interest held equals the voting rights held by the Group. All entities are incorporated in, and operate in, New Zealand unless otherwise stated. There were no changes in control during the period ended 30 June 2019.

	June 2019 Ownership Interest	December 2018 Ownership Interest
Name of entity		
Grabone Limited	**100%**	100%
NZME Australia Pty Limited[A]	**100%**	100%
NZME Educational Media Limited	**100%**	100%
NZME Holdings Limited	**100%**	100%
NZME Investments Limited	**100%**	100%
NZME Print Limited	**100%**	100%
NZME Publishing Limited	**100%**	100%
NZME Radio Investments Limited	**100%**	100%
NZME Radio Limited[B]	**100%**	100%
NZME Specialist Limited	**100%**	100%
The Hive Online Limited	**100%**	100%
New Zealand Radio Network Limited	**100%**	100%
The Radio Bureau Limited	**100%**	100%
OneRoof Limited	**80%**	80%

A Incorporated in, and operates in, Australia.

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

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

5.2 INTERESTS IN OTHER ENTITIES

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

	June 2019 Ownership Interest	December 2018 Ownership Interest
Chinese New Zealand Herald Limited[A]	**50%**	50%
Eveve New Zealand Limited[A]	**40%**	40%
KPEX Limited[A]	**25%**	25%
New Zealand Press Association Limited[A]	**38.82%**	38.82%
Restaurant Hub Limited[A]	**40%**	40%
The Beacon Printing & Publishing Company Limited[A]	**21%**	21%
The Gisborne Herald Company Limited (held through Essex Castle Limited as a trust company for NZME Publishing Limited)[A]	**49%**	49%
The Radio Bureau[B]	**50%**	50%
The Wairoa Star Limited[A]	**40.41%**	40.41%
Ratebroker Limited[D]	**0%**	50%
The Newspaper Publishers Association of New Zealand Incorporated[C]		
Online Media Association[C]		
New Zealand Media Council[C]		
Radio Broadcasters Association Incorporated[C]		

A These entities are classified as joint ventures or associates. Because the effects of equity accounting are immaterial, these investments are carried at cost.

B The Radio Bureau is classified as a joint operation and the Group has included its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses in these consolidated financial statements.

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

D In June 2019 the Group transferred all of its shares to the founding shareholders of Ratebroker Limited.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

6.0 OTHER NOTES

6.1 RELATED PARTIES

The Group did not purchase print services from The Beacon Printing & Publishing Company Limited, a company in which the Group holds a 21% interest in, as the contract for supply ended on 30 September 2018. In the first half of 2018 purchases were $1,510,000.

In November 2015, the Company, Stuff, TVNZ and MediaWorks launched a new local advertising exchange service, KPEX Limited, offering media agencies and clients a programmatic option for purchasing online advertising. The Group received advertising revenue of $1,061,448 (2018: $1,595,000) from KPEX Limited and paid commission of $97,487 (2018: $225,000) to KPEX Limited.

During 2016, the Group acquired interests in certain joint ventures and associates. The Group has entered into commitments to provide future services (such as house advertising, occupancy space at NZME offices, business as usual finance and human resources support). During the period such services were provided to Eveve New Zealand Limited, valued at $21,496 (2018: $13,996), Restaurant Hub Limited, valued at $37,898 (2018: $83,927) and Ratebroker Limited for $nil consideration (2018: $nil consideration). The outstanding balances for future services are included in the table below.

	June 2019 Receivables $'000	December 2018 Receivables $'000	**June 2019 Payables $'000**	December 2018 Payables $'000
Balances with related party				
KPEX Limited	**508**	940	**74**	127
Chinese New Zealand Herald Limited	**-**	-	**87**	19
Eveve New Zealand Limited	**-**	-	**88**	124
Restaurant Hub Limited	**-**	-	**51**	89
Total related party receivables and payables	**508**	940	**300**	359

6.2 CONTINGENT LIABILITIES

The Group did not have contingent liabilities as at 30 June 2019.

6.3 SUBSEQUENT EVENTS

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

Independent review report

To the Shareholders of NZME Limited

Report on the consolidated interim financial statements

We have reviewed the accompanying consolidated interim financial statements of NZME Limited (the Company) and its subsidiaries (the Group) on pages 4 to 27, which comprise the consolidated interim balance sheet as at 30 June 2019, and the consolidated interim income statement, the consolidated interim statement of comprehensive income, the consolidated interim statement of changes in equity and the consolidated interim statement of cash flows for the six months ended on that date, and selected explanatory notes.

Directors' responsibility for the consolidated interim financial statements

The Directors are responsible on behalf of the Company for the preparation and fair presentation of these consolidated interim financial statements in accordance with International Accounting Standard 34 Interim Financial Reporting (IAS 34) and New Zealand Equivalent to International Accounting Standard 34 Interim Financial Reporting (NZ IAS 34) and for such internal control as the Directors determine is necessary to enable the preparation of consolidated interim financial statements that are free from material misstatement, whether due to fraud or error.

Our responsibility

Our responsibility is to express a conclusion on the accompanying consolidated interim financial statements based on our review. We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* (NZ SRE 2410). NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the consolidated interim financial statements, taken as a whole, are not prepared in all material respects, in accordance with IAS 34 and NZ IAS 34. As the auditors of the Company, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of consolidated interim financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. Accordingly, we do not express an audit opinion on these consolidated interim financial statements.

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

PricewaterhouseCoopers, 188 Quay Street, Private Bag 92162, Auckland 1142, New Zealand
T: +64 9 355 8000, F: +64 9 355 8001, pwc.co.nz

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that these consolidated interim financial statements of the Group do not present fairly, in all material respects, the financial position of the Group as at 30 June 2019, and its financial performance and cash flows for the six months then ended, in accordance with IAS 34 and NZ IAS 34.

Who we report to

This report is made solely to the Company's Shareholders, as a body. Our review work has been undertaken so that we might state to the Company's Shareholders those matters which we are required to state to them in our review 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 Shareholders, as a body, for our review procedures, for this report, or for the conclusion we have formed.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants Auckland
26 August 2019


NZ
ME.