



Financial statements

for the year ended 30 June 2018



Statement of comprehensive income

for the year ended 30 June 2018

	Notes	2018 \$'000	2017 \$'000
Classifieds		140,968	125,480
General Items		71,325	70,415
Other		38,070	38,986
Total revenue	3	250,363	234,881
Cost of sales		(17,802)	(15,515)
Net revenue		232,561	219,366
Employee benefit expense	13.2	(39,923)	(35,828)
Web infrastructure expense		(5,472)	(5,620)
Promotion expense		(10,217)	(10,967)
Other expenses		(12,538)	(12,326)
Total expenses	3	(68,150)	(64,741)
Non-operating items		-	1,416
Earnings before interest, tax, depreciation, amortisation and associates		164,411	156,041
Share of losses from associates	5	(634)	(342)
Earnings before interest, tax, depreciation and amortisation		163,777	155,699
Depreciation and amortisation	4.2, 10	(25,595)	(21,149)
Earnings before interest and tax		138,182	134,550
Finance income		1,558	1,410
Finance costs	14.3	(5,162)	(5,237)
Profit before income tax		134,578	130,723
Income tax expense	8	(38,011)	(36,343)
Profit		96,567	94,380
Other comprehensive income			
Items that may be reclassified subsequently to profit and loss:			
Exchange differences on translation of foreign operations		41	(12)
Effective portion of changes in fair value of cash flow hedges	14.3	386	400
Income tax effect of changes in fair value of cash flow hedges		(108)	(112)
Other comprehensive income		319	276
Total comprehensive income		96,886	94,656
Earnings per share			
Basic and diluted (cents per share)	7	24.33	23.76

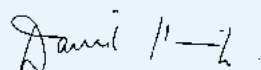
The above statement should be read in conjunction with the accompanying notes.

Statement of financial position

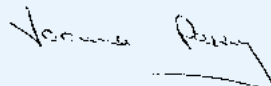
as at 30 June 2018

	Notes	2018 \$'000	2017 \$'000
ASSETS			
Cash and cash equivalents	14.1	72,114	52,832
Trade and other receivables	9	17,398	16,393
Total current assets		89,512	69,225
Property, plant and equipment	10	6,678	8,135
Intangible assets	4	820,994	818,114
Investment in associates	5	6,556	6,149
Total non-current assets		834,228	832,398
Total assets		923,740	901,623
LIABILITIES			
Trade and other payables	6	22,442	22,173
Derivative financial instruments	14	190	408
Income tax payable	8	9,852	8,851
Total current liabilities		32,484	31,432
Interest bearing loans and borrowings	6	135,895	135,957
Deferred tax liability	8	7,918	7,831
Derivative financial instruments	14	201	369
Other non-current liabilities		262	348
Total non-current liabilities		144,276	144,505
Total liabilities		176,760	175,937
EQUITY			
Contributed equity	7	1,070,096	1,069,927
Share-based payment reserve	13.2	536	446
Other reserves	15	(486,038)	(486,357)
Retained earnings		162,386	141,670
Total equity attributable to owners of the Company		746,980	725,686
Total equity and liabilities		923,740	901,623

For and on behalf of the Board of Directors who authorised these financial statements for issue on 21 August 2018



David Kirk
CHAIRMAN



Joanna Perry
CHAIR OF THE AUDIT AND
RISK MANAGEMENT COMMITTEE

The above statement should be read in conjunction with the accompanying notes.

Statement of changes in equity

for the year ended 30 June 2018

	Notes	Ordinary shares \$'000	Share-based payment reserve \$'000	Retained earnings \$'000	Other reserves \$'000	Total equity \$'000
As at 1 July 2016		1,069,814	578	116,787	(486,633)	700,546
Profit		-	-	94,380	-	94,380
Currency translation differences		-	-	-	(12)	(12)
Movement in cash flow hedge reserve (net of tax)		-	-	-	288	288
Total comprehensive income		-	-	94,380	276	94,656
Dividends paid	7	-	-	(69,497)	-	(69,497)
Supplementary dividends		-	-	(9,824)	-	(9,824)
Tax credit on supplementary dividends		-	-	9,824	-	9,824
Share-based payments	13.2	113	(132)	-	-	(19)
As at 30 June 2017		1,069,927	446	141,670	(486,357)	725,686
Profit		-	-	96,567	-	96,567
Currency translation differences		-	-	-	41	41
Movement in cash flow hedge reserve (net of tax)		-	-	-	278	278
Total comprehensive income		-	-	96,567	319	96,886
Dividends paid	7	-	-	(75,851)	-	(75,851)
Supplementary dividends		-	-	(10,442)	-	(10,442)
Tax credit on supplementary dividends		-	-	10,442	-	10,442
Share based payments	13.2	169	90	-	-	259
As at 30 June 2018		1,070,096	536	162,386	(486,038)	746,980

The above statement should be read in conjunction with the accompanying notes.

Statement of cash flows

for the year ended 30 June 2018

	2018 \$'000	2017 \$'000
Operating activities		
Profit before income tax	134,578	130,723
Adjustments to reconcile profit before income tax to net operating cash flows:		
Depreciation of property, plant and equipment	3,654	3,536
Amortisation of intangible assets	21,941	17,613
Share-based payment expense	262	63
Doubtful debts expense	539	469
Gain on sale of Travelbug and Bookit	-	(497)
Release of earn out provision	-	(919)
Finance costs	5,162	5,237
Share of losses from associates	634	342
Other	(219)	(80)
Working capital adjustments:		
Increase in trade and other receivables and prepayments	(1,436)	(2,915)
Increase in trade and other payables	1,166	1,981
Income tax paid	(26,596)	(25,279)
Net cash flows from operating activities	139,685	130,274
Investing activities		
Purchase of property, plant and equipment	(2,984)	(2,424)
Purchase/capitalisation of intangibles	(24,720)	(22,296)
Business disposals	-	1,082
Deferred payments from business acquisitions	-	(1,753)
Investment in associates	(1,006)	(869)
Net cash flows (used in) investing activities	(28,710)	(26,260)
Financing activities		
Dividends paid	(86,293)	(79,321)
Draw down of debt	-	20,000
Repayment of debt	-	(20,000)
Interest paid on borrowings (including facility fees)	(5,400)	(5,974)
Net cash flows (used in) financing activities	(91,693)	(85,295)
Net increase in cash and cash equivalents	19,282	18,719
Cash and cash equivalents at beginning of period	52,832	34,113
Cash and cash equivalents at end of period	72,114	52,832

The above statement should be read in conjunction with the accompanying notes.

Notes to the financial statements

for the year ended 30 June 2018

1 Reporting entity and statutory base

Trade Me Group Limited (the “Company”) is a company incorporated and domiciled in New Zealand, registered under the Companies Act 1993 and listed on the New Zealand Stock Exchange (“NZX”) and the Australian Stock Exchange (“ASX”). The Company is a FMC Reporting Entity under the Financial Markets Conduct Act 2013. For the purposes of complying with NZ GAAP the entity is a for-profit entity. The address of its registered office and primary place of business is Level 5, 2 Market Lane, Wellington, New Zealand.

The consolidated financial statements comprise the Company and its subsidiaries (together referred to as the “Group”).

The nature of the operations and principal activities of the Group are to provide online marketplaces that connect people to undertake a transaction or form a relationship. The Group’s businesses include providing a new and used goods marketplace, classified advertising for motor vehicles, real estate and employment, online advertising services and other ancillary online businesses.

2 Basis of accounting

Basis of preparation

The consolidated financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable New Zealand Financial Reporting Standards, as appropriate for profit-oriented entities. They also comply with International Financial Reporting Standards (“IFRS”).

The financial statements have been prepared on a historical cost basis, except for derivative financial instruments and other items where specifically noted in the notes to the financial statements, which have been measured at fair value.

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (\$000s).

Both the functional and presentation currency of the Company is New Zealand dollars (\$). Transactions in foreign currencies are initially recorded in New Zealand dollars by applying the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated at the exchange rate at balance date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

Goods and Services Tax (‘GST’)

The financial statements have been prepared so that all components are stated exclusive of GST, except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of an asset or as part of the expense item as applicable; and
- trade receivables and payables, which include GST invoiced.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to the taxation authority.

Related party transactions

There were no material related party transactions other than intra-group dividends and funding which have been eliminated on consolidation. All transactions that are not eliminated on consolidation are at arm’s length on commercial terms.

Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group’s accounting policies, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The 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 if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

Determining whether goodwill or brand indefinite life assets are impaired requires an estimation of the recoverable amount of the cash-generating units to which goodwill and brand has been allocated. This requires management to estimate the future cash flows expected to arise from the Group’s cash-generating units and a suitable discount rate. Refer note 4.

The Group’s process for calculating the amount of internally developed platform costs to be capitalised is judgemental and involves estimating the hours which employees spend developing the platform, and determining the costs attributable to that time. A margin is added to employees’ salary costs to account for indirect costs attributable to the

development. This margin is reviewed annually to ensure it remains appropriate. The useful life used to amortise capitalised platform development costs is estimated based on historical experience as well as anticipation of future events which may impact their life. The useful life represents management's view of the expected term over which the Group will receive benefits from the development and is regularly reviewed for appropriateness. Refer note 4.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) as at the reporting date. Control is achieved where the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The results of subsidiaries acquired or disposed of during the year are included in profit or loss from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

New standards, amendments and interpretations

There are no standards or interpretations that are effective for the first time this year that have had an impact on the Group.

New standards, amendments and interpretations issued but not effective for the financial year beginning 1 July 2017 and not early adopted

New standards, amendments and interpretations issued by the International Accounting Standards Board (IASB) and the External Reporting Board in New Zealand (XRB) have been published that will be mandatory for the Group's accounting periods beginning after 1 July 2017. None of these standards have been early adopted by the Group. The relevant new standards, amendments and interpretations include:

NZ IFRS 15 'Revenue from Contracts with Customers'

This standard deals with revenue recognition providing a single comprehensive principles-based five step model to be applied to all contracts with customers. The standard replaces NZ IAS 18 *Revenue* and related interpretations and is effective for annual periods beginning on or after 1 January 2018 with early adoption permitted. Trade Me will adopt the standard for the financial year ending 30 June 2019. For transitioning purposes, Trade Me will use the retrospective cumulative effect method, whereby initial application of the standard will result in adjusting the opening balance of retained earnings for the start of the comparative period for the cumulative effect of the standard.

Management have reviewed each revenue stream to determine the impact of NZ IFRS 15 and assessed that many revenue streams are not impacted given the short-term nature of our services. Revenue streams impacted are listing fees and some premium fees where listing lengths extend beyond 30 days. Management have assessed the impact of NZ IFRS 15 and concluded that circa 2% of revenue would be deferred at any point in time.

NZ IFRS 9 'Financial Instruments'

This standard addresses the classification, measurement and recognition of financial assets and financial liabilities, the impairment of financial assets and hedge accounting. The standard is effective for annual periods beginning on or after 1 January 2018 with early adoption permitted. Trade Me will adopt the standard for the financial year ending 30 June 2019.

Management have assessed the impact of NZ IFRS 9 and consider the only change in accounting policy will be adoption of the simplified lifetime expected credit loss approach for impairing trade receivables. This change in accounting policy will not have a material impact on the financial statements.

NZ IFRS 16 'Leases'

This standard requires a lessee to recognise a lease liability reflecting the future lease payments and a 'right-of-use asset' for substantively all lease contracts. The standard is effective for annual periods beginning on or after 1 January 2019 with early adoption permitted. Trade Me will adopt the standard for the financial year ending 30 June 2020.

Management have assessed the impact of NZ IFRS 16 on the Group's financial statements and if NZ IFRS 16 had come into effect for the current financial year, an additional \$9.3m lease liability and right-of-use asset would have been recognised in the Group's statement of financial position.

Other amendments to accounting standards

There are other standards, amendments and interpretations which have been approved but are not yet effective. The Group expects to adopt these when they become mandatory. None are expected to materially impact the Group's financial statements.

3 Segment reporting

(a) Identification of reportable segments

The Group has determined its operating segments based on the reports reviewed by the Group's Chief Executive Officer to assess performance, allocate resources and make strategic decisions. The reportable segments are based on aggregating operating segments based on the similarity of the services provided.

The Group's reportable segments are as follows:

Classifieds

The Classifieds segment represents advertising revenue from each of our three classified sites: Motors, Property and Jobs. Revenue is generated primarily from listing and depth fees.

General Items

The General Items segment is our online marketplace business. Revenue is generated from listing fees, depth fees and success fees and performance is driven by both the number of completed transactions and the total sales value of completed transactions.

Other

The Other segment reflects all other businesses, including advertising, dating, payments gateway, life and health insurance comparison, and general insurance.

(b) Segment revenues, EBITDA* and reconciliation to profit before income tax

The following is an analysis of the Group's revenue and EBITDA by reportable segment.

	Revenue		EBITDA*	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Operating Segments				
Classifieds	140,968	125,480	97,728	86,795
General Items	71,325	70,415	50,170	52,105
Other	38,070	38,986	16,513	15,725
Total	250,363	234,881	164,411	154,625
Non-operating items			-	1,416
			164,411	156,041
Reconciliation to overall result				
Share of associate losses			(634)	(342)
EBITDA*			163,777	155,699
Depreciation and amortisation			(25,595)	(21,149)
Finance income			1,558	1,410
Finance costs			(5,162)	(5,237)
Profit before income tax			134,578	130,723

*EBITDA reflects earnings before interest, tax, depreciation and amortisation.

The accounting policies of the reportable segments are the same as the Group's accounting policies as outlined in the notes to these financial statements.

Segment revenue reported above represents revenue generated from external customers. Immaterial inter-segment revenues have been excluded from the above segment results.

The assets and liabilities of the Group are reported to and reviewed by the Chief Executive Officer in total and are not allocated by operating segment. Therefore, operating segment assets and liabilities are not disclosed.

The Group operates largely within New Zealand. The Group also owns four Australian subsidiaries and has international sellers generating revenue overseas, largely in the marketplace business. Revenues from foreign countries amounted to \$10.3m (2017: \$8.5m).

The Group's Australian subsidiaries are:

- Motorweb Australia Pty Limited, which generates revenues in Australia
- Kevin's Australian Investments Pty Limited, which is a holding company
- VehicleID Australia Pty Limited, which is a service entity
- Trade Me Australia Pty Limited, which is a service entity

No single customer contributed 10% or more to the Group's revenue (2017: nil).

4 Intangible assets

	Goodwill \$'000	Brand \$'000	Software \$'000	Platform development \$'000	Other \$'000	Total \$'000
30 June 2017	748,962	32,696	2,295	33,410	751	818,114
30 June 2018	749,063	32,696	2,296	36,419	520	820,994

Initial recognition

Intangible assets acquired separately are reported at cost less accumulated amortisation and accumulated impairment losses. Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date. After initial recognition these intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Acquired software licences and costs directly incurred in purchasing or developing computer software are capitalised as intangible assets when it is probable that they will generate future economic benefits for the Group.

Platform development costs include external costs, salaries and overheads that are directly attributable to the development of our website and the underlying platforms. Costs are capitalised for projects that are not maintenance in nature and are going to enhance user experience, maintain and grow audience, and help generate future economic benefits.

Goodwill arising from business combinations is initially measured at cost, being the excess of the sum of the consideration transferred over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the gain is recognised in profit or loss.

Impairment considerations

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or CGUs). When new businesses are acquired and goodwill is recognised, goodwill is allocated to these CGUs.

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, or in the case of goodwill and brand annually, the Group makes a formal estimate of the recoverable amount. Where the carrying value of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

If the recoverable amount of the CGU is less than the carrying amount of the CGU, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets. Impairment losses recognised for goodwill are not reversed in a subsequent period.

The recoverable amount is the greater of the fair value less costs to sell or the asset's value in use. Value in use is calculated by discounting estimated future cash flows using a pretax discount rate. The value in use calculations at 30 June 2018 use cash flow projections based on the 2019 financial budgets approved by the directors extrapolated over a four-year period, pre tax discount rates of between 12% - 19% (2017: 11% - 18%) per annum and a terminal growth rate of 1.5% for all CGUs except FindSomeone which used a terminal growth rate of -16% (2017: 1.5% for all CGUs except FindSomeone at -10%).

Brand is not separately allocated to CGUs as it cannot be separately sold and does not generate separate cash flows. Brand has an indefinite useful life and is reviewed for impairment annually by looking at the value in use calculation for the Group as a whole using assumptions consistent with those above.

4.1 Goodwill and Brand

	Goodwill \$'000	Brand \$'000	Total \$'000
Balance at 1 July 2016	749,226	32,696	781,922
Disposals	(269)	–	(269)
Effect of movements in foreign exchange	5	–	5
Balance at 30 June 2017	748,962	32,696	781,658
Effect of movements in foreign exchange	101	–	101
Balance at 30 June 2018	749,063	32,696	781,759

Allocation of goodwill to CGUs

Management reviews the business performance for three reportable segments (refer note 3), being separately identifiable groups of CGUs. The following is a summary of the goodwill allocation to each CGU group:

Cash generating unit group ('CGU')	2018 \$'000	2017 \$'000
Classifieds	372,893	372,792
General Items	299,457	299,457
Other	76,713	76,713
	749,063	748,962

Goodwill impairment testing

There was no impairment of goodwill or brand. Management believe that any reasonable possible change in the key assumptions including an increase in the discount rate applied or a reduction in future growth rates, would not cause the carrying amount to exceed its recoverable amount using assumptions consistent with those above.

4.2 Other Intangible Assets

Amortisation and disposal

Other intangible assets are amortised on a straight-line basis over the estimated useful life of the specific assets as follows:

- Platform development costs 33%
- Software 25% – 50%
- Customer relationships 14%

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from its use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset are recognised in profit or loss when the asset is derecognised.

	Note	Software \$'000	Platform development \$'000	Other \$'000	Total \$'000
Gross carrying amount					
Balance at 1 July 2016		26,766	40,650	1,994	69,410
Additions		1,530	21,051	-	22,581
Disposals		(748)	(6,541)	(376)	(7,665)
Balance at 30 June 2017		27,548	55,160	1,618	84,326
Additions		1,823	22,897	-	24,720
Balance at 30 June 2018		29,371	78,057	1,618	109,046
Accumulated amortisation					
Balance at 1 July 2016		(22,936)	(13,689)	(1,012)	(37,637)
Amortisation		(3,065)	(14,317)	(231)	(17,613)
Disposals		748	6,256	376	7,380
Balance at 30 June 2017		(25,253)	(21,750)	(867)	(47,870)
Amortisation		(1,822)	(19,888)	(231)	(21,941)
Balance at 30 June 2018		(27,075)	(41,638)	(1,098)	(69,811)
Net book value					
Balance at 30 June 2017		2,295	33,410	751	36,456
Balance at 30 June 2018		2,296	36,419	520	39,235

5 Associates

	2018 \$'000	2017 \$'000
Investments in associates are as follows:		
Harmony Corp Limited	6,150	6,149
Allsorts Limited	406	-
Investment in associates	6,556	6,149
Equity accounted losses of associates are as follows:		
Harmony Corp Limited	(440)	(342)
Allsorts Limited	(194)	-
Share of losses from associates	(634)	(342)

Harmony Corp Limited (Harmony)

The Group has a 12.9% (2017: 11.9%) interest (after the dilution impact of share schemes) in lending platform Harmony, New Zealand's first peer-to-peer lending company. Harmony is an unlisted company incorporated in New Zealand.

Significant influence is held over Harmony through the Group having a member on the Harmony Board of Directors.

No dividends have been received from Harmony in the year ended 30 June 2018 (2017: nil).

Harmony has a 31 March reporting date. The balance sheet in note 5.1 reflects Harmony's audited financial statements for the year ended 31 March 2018. The equity accounted losses reflect Harmony's audited financial statements to 31 March 2018, and management accounts from that date to 30 June 2018.

Allsorts Limited (Allsorts)

The Group has a 50% (2017: nil) interest in Allsorts, a job matching tool that helps match job hunters and employers. Allsorts is an unlisted company incorporated in New Zealand.

5.1 Harmony Corp Limited

	2018 \$'000	2017 \$'000
Carrying amount of associate		
Opening carrying amount	6,149	5,556
Acquisition of shares	441	935
Total cost of investment	6,590	6,491
Share of associate's losses in the year	(440)	(342)
Carrying value of investment in associate	6,150	6,149
Balance Sheet information for Harmony:		
Current assets	9,497	8,622
Non current assets	226	401
Total assets	9,723	9,023
Current liabilities	4,135	3,565
Non current liabilities	152	113
Total liabilities	4,287	3,678
Equity	5,436	5,345
Equity accounted earnings comprise:		
Revenues – 100%	27,814	17,494
Loss from continuing operations – 100%	(3,423)	(2,733)
Loss from continuing operations – Trade Me share	(440)	(342)

Investments in associates are accounted for using the equity method of accounting. Associates are entities over which the Company has significant influence and that are neither subsidiaries nor joint ventures. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

Under the equity method, investments in associates are carried at cost plus post acquisition changes in the Group's share of net assets of the associates. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised.

The Group's share of its associates' post-acquisition profits or losses is recognised in profit or loss and its share of post-acquisition reserve movements is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are not recognised in profit or loss, but instead are recorded as a reduction in the carrying amount of the investment.

After application of the equity method, the Group determines whether it is necessary to recognise any impairment loss with respect to the Group's net investment in associates. The Group determines at each reporting date whether there is any objective evidence that the investment is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying amount and recognises the amount in the "share of losses from associate" line in the statement of comprehensive income. The Group has referenced recent arms length share transactions to determine an effective fair value of its investment in Harmony. Based on this, there was no impairment of investment in associates recognised at 30 June 2018 (2017: nil).

6 Liabilities and other commitments

Trade and Other Payables

	2018 \$'000	2017 \$'000
Trade payables	10,916	10,031
Accrued expenses	6,571	7,306
Revenue in advance	2,562	2,469
Employee entitlements	2,393	2,367
	22,442	22,173

Trade and other payables are carried at amortised cost and due to their short term nature they are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

Liabilities for wages, salaries and annual leave are recognised in the provision for employee entitlements and are measured at the amounts expected to be paid when the liabilities are settled. The employee entitlement liability is expected to be settled within 12 months from balance date and is recognised in current liabilities.

Interest-bearing loans and borrowings

The Group has a \$166m revolving cash advance loan facility with Commonwealth Bank of Australia (70%) and Westpac New Zealand Limited (30%) of which \$136m was drawn down as at 30 June 2018. Tranche 1 of the facility was refinanced during the year with the maturity date extended to 11 June 2021.

Description	Maturity date	2018 \$'000	2017 \$'000
Tranche 1	11-Jun-21	83,000	83,000
Tranche 2	11-Dec-19	53,000	53,000
Loan establishment costs		(105)	(43)
		135,895	135,957

The facility is guaranteed by the Company and its wholly owned subsidiary Trade Me Limited. The covenants entered into by the Group require specific calculations of the Group's net debt to EBITDA, and interest cover. There have been no covenant breaches.

The facility incurs interest based on market floating rates that are re-set every 90 days.

Interest-bearing loans and borrowings are initially measured at fair value, less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Loans and borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Commitments

(a) Lease Commitments

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

	2018 \$'000	2017 \$'000
Within one year	2,773	2,644
Later than one year but not later than five years	7,654	7,762
Later than five years	–	1,393
	10,427	11,799

The Group leases premises. Operating leases held over properties give the Group the right to renew the lease subject to a re-determination of the lease rental by the lessor.

Where the Group is the lessee, leases where the lessor retains substantially all the risks and benefits of ownership of assets are classified as operating leases. Net rental payments, excluding contingent payments, are recognised as an expense in profit or loss on a straight-line basis over the period of the lease. Operating lease incentives are recognised as a liability when received and subsequently reduced by an offset to rental expense and a corresponding reduction to the liability.

(b) Capital Commitments

The Group has no material capital commitments as at 30 June 2018 (2017: nil).

Contingent liabilities

The Group has no material contingent liabilities as at 30 June 2018 (2017: nil).

7 Share information

Movement in total shares on issue	2018 '000s	2017 '000s
Balance at beginning of period	396,981	397,093
Issue of restricted shares	363	274
Cancellation of restricted shares	(267)	(386)
Balance at the end of the period	397,077	396,981
Comprised of		
Restricted shares	880	873
Ordinary shares	396,197	396,108

All ordinary shares carry equal rights in respect of voting and the receipt of dividends. Ordinary shares do not have a par value. Restricted shares are the same as ordinary shares except they cannot be sold until they vest and convert to ordinary shares.

Earnings per share

The earnings and weighted average number of ordinary and restricted shares used in the calculation of basic and diluted earnings per share are as follows:

	2018	2017
Earnings used for the calculation of basic and diluted earnings (\$'000)	96,567	94,380
Weighted average number of shares on issue (000's)	396,981	397,304
Basic and diluted earnings per share (cents)	24.33	23.76

Basic earnings per share amounts are calculated by dividing profit for the year by the weighted average number of ordinary and restricted shares outstanding during the year. Diluted earnings per share equals basic earnings per share, since there are no potentially dilutive ordinary shares.

Dividends paid or authorised

		2018 \$'000	2017 \$'000
Final dividend for 2016	at 9.0 cents per share		35,738
Interim dividend for 2017	at 8.5 cents per share		33,759
Final dividend for 2017	at 10.0 cents per share	39,698	
Interim dividend for 2018	at 9.1 cents per share	36,153	
Dividends declared and proposed after reporting date, but not recorded as a liability in these financial statements:			
Final dividend for 2018	at 10.5 cents per share	41,693	
Special dividend	at 22.0 cents per share	87,357	

8 Tax

<u>Income tax recognised in profit or loss</u>	<u>2018</u> <u>\$'000</u>	<u>2017</u> <u>\$'000</u>
Tax expense comprises:		
Current tax charge	37,924	36,155
Deferred tax relating to the origination and reversal of temporary differences	87	188
Total tax charge	38,011	36,343
The prima facie income tax expense on pre-tax accounting profit reconciles to the income tax expense in the financial statements as follows:		
Profit before income tax	134,578	130,723
Income tax expense calculated at 28%	37,682	36,602
Non-deductible expenses	423	298
Non-assessable income	(140)	(539)
Other	46	(18)
	38,011	36,343

Deferred tax

The analysis of deferred tax assets and liabilities is as follows:

<u>Assets/(liabilities)</u>	<u>Indefinite Life</u> <u>Brand Asset</u> <u>\$'000</u>	<u>Other</u> <u>\$'000</u>	<u>Total</u> <u>\$'000</u>
Balance at 1 July 2016	(9,153)	1,510	(7,643)
Charged to income statement	–	(188)	(188)
Balance as at 30 June 2017	(9,153)	1,322	(7,831)
Charged to income statement	–	(87)	(87)
Balance as at 30 June 2018	(9,153)	1,235	(7,918)

<u>Imputation credit account</u>	<u>2018</u> <u>\$'000</u>	<u>2017</u> <u>\$'000</u>
Imputation credits available for use in subsequent periods	48,004	39,974

The imputation credit amount represents the balance of the imputation credit account as at the end of the reporting period, adjusted for imputation credits that will arise from the payment of the provision for income tax payable post balance date. The actual imputation credits available at balance date as determined by the Income Tax Act 2007 are \$38,606,000 (2017: \$31,299,000).

The income tax expense or benefit for the period is the tax payable on the current period's taxable income adjusted by changes in deferred tax assets and liabilities attributed to temporary differences between the tax base of assets and liabilities and their carrying amounts in the financial statements.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at balance date.

Deferred tax assets and liabilities are recognised for temporary differences at balance date between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets and liabilities are not recognised if the temporary difference arises from goodwill.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and carry-forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at balance date.

9 Trade and other receivables

	2018 \$'000	2017 \$'000
Trade receivables	15,820	13,172
Provision for doubtful debts	(1,480)	(1,057)
Other	3,058	4,278
	17,398	16,393

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment. Collectability of trade receivables is reviewed on an on-going basis and a provision for doubtful debts is made when there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor, or amounts significantly overdue are considered objective evidence of impairment. There are no overdue debtors considered impaired that have not been provided for.

10 Property, plant and equipment

	Motor vehicles \$'000	Computer equipment \$'000	Plant and equipment \$'000	Total \$'000
Gross carrying amount				
Balance at 1 July 2016	54	19,017	6,551	25,622
Additions	-	1,851	322	2,173
Disposals	(26)	(800)	(186)	(1,012)
Balance at 30 June 2017	28	20,068	6,687	26,783
Additions	-	1,956	295	2,251
Disposals	(2)	(7,058)	(1)	(7,061)
Balance at 30 June 2018	26	14,966	6,981	21,973
Accumulated depreciation				
Balance at 1 July 2016	(53)	(13,872)	(2,193)	(16,118)
Depreciation	-	(2,817)	(719)	(3,536)
Disposals	26	800	180	1,006
Balance at 30 June 2017	(27)	(15,889)	(2,732)	(18,648)
Depreciation	(1)	(2,973)	(680)	(3,654)
Disposals	2	7,005	-	7,007
Balance at 30 June 2018	(26)	(11,857)	(3,412)	(15,295)
Net book value				
Balance at 30 June 2017	1	4,179	3,955	8,135
Balance at 30 June 2018	-	3,109	3,569	6,678

Property, plant and equipment is stated at historical cost less depreciation.

Depreciation on assets is charged on a straight-line basis to allocate the difference between their original costs and the residual values over their estimated useful lives, as follows:

Major depreciation categories are as follows:

- Plant and equipment 7% – 21%
- Computer equipment 33% – 67%
- Motor vehicles 21%

The assets' residual values and useful lives are reviewed and adjusted if appropriate at each balance date. If an asset's carrying amount is greater than its estimated recoverable amount, the carrying amount is written down immediately to its recoverable amount.

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. When an item of property, plant and equipment is disposed of, the difference between net disposal proceeds and the carrying amount is recognised in profit or loss.

11 Subsidiaries

Details of the Company's subsidiaries at balance date are as follows:

Name of subsidiary	Principal activity	Place of incorporation	Ownership interests and voting rights	
			2018	2017
Trade Me Limited	Operate and manage all Trade Me platforms	New Zealand	100%	100%
Old Friends Limited	Non-trading	New Zealand	0%	100%
TMG Trustee Limited	Non-trading	New Zealand	100%	100%
Trade Me Comparisons Ltd	Online insurance comparison	New Zealand	100%	100%
Motorweb Australia Pty Limited	Online vehicle data services	Australia	100%	100%
Kevin's Australian Investments Pty Limited	Holding company	Australia	100%	100%
Paystation Limited	Payments gateway	New Zealand	100%	100%
VehicleID Australia Pty Limited	Service entity	Australia	100%	0%
Trade Me Australia Pty Limited	Service entity	Australia	100%	0%

12 Revenue and expenses

Other expenses

Other expenses include:

	2018 \$'000	2017 \$'000
Remuneration of the auditors		
Audit of annual financial statements	111	108
Review of interim (half year) financial statements	47	46
Preparation of greenhouse gas emission reporting (CarboNZero)	12	-
Total remuneration paid or payable to EY	171	154
Other		
Rent	3,169	3,078

Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent that it is probable that the economic benefits will flow to the Group and the amount of the revenue can be reliably measured.

Classifieds

Income is split between member income and invoiced income. Invoiced income is recognised at the point at which the service is delivered.

General Items

Income is primarily derived from members and is recognised when either:

- members have their prepay accounts charged for using Trade Me services;
- members forfeit prepaid balances on the closing of accounts;
- manual processing fees are charged to members obtaining refunds of prepay accounts; or
- other fees are charged to members in accordance with Trade Me terms and conditions.

Other

Comprises largely of invoiced income. Invoiced income is recognised at the point at which the service is delivered.

Finance income

Interest revenue is recognised as interest accrues using the effective interest method.

Finance costs

Finance costs consist of interest and other costs incurred in connection with the borrowing of funds. Finance costs are expensed in the period in which they occur, other than associated transaction costs, which are capitalised and amortised over the term of the facility to which they relate.

13 Compensation of management personnel**13.1 Key management personnel**

The remuneration of key management of the Group during the year was as follows:

	2018 \$'000	2017 \$'000
Short-term benefits	5,331	4,469
Share-based payments	128	37
Termination benefits	200	–
Total compensation	5,659	4,506

13.2 Share-based payment plans

Equity-settled employee share plans

The Company grants restricted shares under a Long-term Incentive Scheme ('the Scheme'), with a typical vesting period of three years to management. This vesting period may vary to retain an employee for a critical period. The restricted shares have all the rights attached to ordinary shares (including the right to dividends) but may be redeemed by the Company if the qualification criteria are not met.

The cost of restricted shares is measured based on the fair value at the date they are granted using an appropriate pricing model. The cost is recognised, together with a corresponding increase in equity, over the vesting period. The cumulative expense at each reporting date reflects the extent to which the vesting period has expired and the best estimate of the number of shares that will vest. The expense or credit in the reporting period is the movement in cumulative expense and is recognised in employee benefits expense.

Vesting criteria

Vesting of half of any entitlement is dependent upon the Group's total shareholder return (TSR) achieving or exceeding 50% of the NZX 50 Index (the Index) with 100% vesting if TSR performance is in the top quartile. Vesting of the other half of any entitlement is dependent upon the Group achieving earnings per share (EPS) three year annual compound growth from 6% (F16, F17 and F18 tranches) and from 8% (F15 tranche) with 100% vesting at 10% (F16, F17 and F18 tranches) and at 12% (F15 tranche).

Share based payment expense recognised in the current period was \$0.3m (2017: \$0.1m) and PAYE liability arising from share based payments at 30 June 2018 was \$0.2m (2017: \$0.4m).

Partial vesting of F15 tranche

F15 tranche had a vesting date of 30 September 2017. The EPS hurdle was not met and half of the F15 tranche shares tied to the EPS hurdle did not vest at all. The minimum TSR hurdle was met with 30.55% of the F15 tranche shares vesting.

The following table shows key information for each tranche of the Scheme:

	F15 tranche	F16 tranche	F17 tranche	F18 tranche
Grant date	1-Oct-14	1-Oct-15	1-Oct-16	1-Oct-17
Vesting date	30-Sep-17	30-Sep-18	30-Sep-19	30-Sep-20
Number outstanding/exercisable				
Outstanding at beginning of the year	295,356	316,034	261,191	-
(Exercised)/granted during the year	(88,796)	-	-	362,650
(Forfeited)/(expired) during the year	(206,560)	(19,105)	(37,642)	(3,375)
Outstanding at end of the year	-	296,929	223,549	359,275
Exercisable at end of the year	-	286,416	142,556	214,614
Weighted average exercise price:				
- exercisable as at the end of the year		\$3.72	\$5.47	\$4.44
- exercised during the year	\$3.55			
Weighted average fair value:				
- exercisable as at the end of the year		\$2.00	\$2.96	\$2.38

14 Financial instruments

14.1 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Short-term deposits with an original maturity of greater than three months are also included within cash and cash equivalents if the term deposit can be terminated at an earlier date without incurring penalties. Cash and cash equivalents includes term deposits of \$30m (2017: \$40m).

14.2 Derivative financial instruments

The Group uses derivative financial instruments to manage its risks associated with interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which are recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

The derivative financial instruments at balance date are all interest rate swaps, the details of which are reported below under interest rate risk.

14.3 Financial risk management

Financial risk management

In the normal course of business the Group is exposed to a variety of financial risks, which includes market risk, credit risk and liquidity risk. The Group's treasury policy recognises the unpredictability of financial markets and seeks to minimise the potential adverse effects of market movements. The management of these risks is performed in accordance with the treasury policy approved by the Board of Directors. This policy covers specific areas such as interest rate risk, foreign exchange risk, credit risk and liquidity risk.

Market risk

Interest rate risk

The Group's primary interest rate risk arises from bank borrowings which are reset every 90 days to market rates. The Group's treasury policy requires the use of derivative financial instruments to manage interest rate risk. In order to protect against rising interest rates the Group has entered into interest rate swap contracts under which it has a right to receive interest at floating rates and pay interest at fixed rates, where cumulative net settlement of interest is payable or receivable quarterly. Swaps in place currently cover \$50m (2017: \$70m) of the principal outstanding and mature over a three year period.

The notional principal amounts and period of expiry of existing interest rate swap contracts are as follows:

	2018 \$'000	2017 \$'000
0–1 years	50,000	20,000
1–2 years	30,000	50,000
2–3 years	30,000	30,000
Fair value interest rate swaps		
Current portion	(190)	(408)
Non-current portion	(201)	(369)

At balance date the Group had the following financial assets and liabilities exposed to New Zealand variable interest rate risk:

	2018 \$'000	2017 \$'000
Cash	72,114	52,832
Interest bearing loans and borrowings	(136,000)	(136,000)
Interest rate swaps	(391)	(777)

If interest rates had moved by + / - 1%, with all other variables held constant, the Group profit before income tax for the year ended 30 June 2018 would have decreased/increased by \$0.7m (2017: decreased/increased by \$0.9m). If interest rates had moved by + / - 1% the Group's equity would have increased/decreased by \$0.9m (2017: increased/decreased by \$0.9m). The movement in the Group's equity is due to changes in the fair value of interest rate swaps designated as cash flow hedges.

Credit risk

Exposure to credit risk arises from the potential default of the counterparty, with the maximum exposure equal to the carrying amount of the financial assets. The Group's credit risk arises from the Group's financial assets, which include cash and cash equivalents, loans and trade and other receivables.

For banks and financial institutions only independently rated parties with a minimum long term Standard & Poor's rating of AA- are accepted. The Group's treasury policy also sets the maximum counterparty credit exposure to any individual bank or financial institution.

Trade and other receivables consist of a large number of customers, and consequently there is no concentration of credit risk with respect to debtors.

The Group has a concentration of credit risk with its cash and cash equivalents, which are held with three banks.

The loans are secured over a number of interests including shares, and other property.

Liquidity risk

Liquidity risk arises from the financial liabilities of the Group and the Group's subsequent ability to meet its obligation to repay its financial liabilities as and when they fall due.

The following table details the Group's remaining contractual maturity of its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are at floating rates, the undiscounted cash flows are derived from the interest rate at 30 June.

Group	Less than 6 Months \$'000	6-12 Months \$'000	1-5 Years \$'000	Total \$'000
2018				
Trade and other payables	22,442	-	262	22,704
Borrowings	2,293	2,293	142,352	146,938
Interest rate swaps	189	15	187	391
	24,924	2,308	142,801	170,033
2017				
Trade and other payables	22,173	-	348	22,521
Borrowings	2,121	2,121	139,591	143,833
Interest rate swaps	141	185	592	918
	24,435	2,306	140,531	167,272

Hedge accounting

The Group designates and documents the relationship between hedging instruments and hedged items, as well as the risk management objective and strategy for undertaking various hedge transactions. At hedge inception (and on an ongoing basis), hedges are assessed to establish if they are effective in offsetting changes in fair values or cash flows of hedged items. The Group discontinues hedge accounting if (a) the hedging instrument expires or is sold, terminated, or exercised; (b) the hedge no longer meets the criteria for hedge accounting; or (c) the hedge designation is revoked. Hedges are classified as cash flow hedges.

Fair values

Financial instruments included in these financial statements include cash and cash equivalents, trade and other receivables, trade and other payables, interest bearing loans and borrowings and derivative financial instruments. The carrying amounts of these financial instruments are a reasonable approximation of their fair values.

Derivative financial instruments are classified as “fair value through profit or loss” and are categorised as level 2 based on the quality of inputs used to determine fair value:

- Level 1 – quoted prices 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 (unobservable inputs)

The fair value of derivative financial instruments has been determined using observable market interest rate data as at balance date.

Refer to below table, which shows movements in fair value of derivative financial instruments:

	2018 \$'000	2017 \$'000
Changes in fair value of interest rate swaps recognised in finance costs	–	845
Effective portion of changes in fair value of cash flow hedges recognised in other comprehensive income	386	400
Gain in fair value of interest rate swaps	386	1,245

15 Other Reserves

Nature and purpose of reserve

Acquisition reserve

On 13 December 2011 the Company completed its initial public offering and became a stand alone company listed on both the NZX and ASX. The use of the existing book values in the Group's statement of financial position at 13 December 2011, together with the new share capital and debt resulted in a debit adjustment on consolidation of \$485.7 million.

Cash flow hedge reserve

The cash flow hedge reserve contains the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Foreign currency translation reserve

The foreign currency translation reserve contains foreign exchange differences arising on consolidation of foreign operations.

Other reserves

	Acquisition reserve	Cash flow hedge reserve	Foreign currency translation reserve	Total
As at 1 July 2016	(485,737)	(888)	(8)	(486,633)
Changes during the period	–	288	(12)	276
As at 30 June 2017	(485,737)	(600)	(20)	(486,357)
Changes during the period	–	278	41	319
As at 30 June 2018	(485,737)	(322)	21	(486,038)

16 Events after the reporting period

On 21 August 2018, the Group entered into an additional debt facility arrangement with Commonwealth Bank of Australia and Westpac Banking Corporation for \$80m for a period of 18 months expiring January 2020.

On 21 August 2018, the Group agreed to acquire a minority interest in Sharesies Limited.

A final dividend and a special dividend were declared after 30 June 2018 (refer to note 7).



Independent auditor's report to the Shareholders of Trade Me Group Limited

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Trade Me Group Limited ("the company") and its subsidiaries (together "the group") on pages 52 to 76, which comprise:

- The consolidated statement of financial position of the group as at 30 June 2018;
- The consolidated statement of comprehensive income of the group,
- The consolidated statement of changes in equity of the group, and
- The consolidated statement of cash flows of the group for the year then ended; and
- The notes to the consolidated financial statements including a summary of significant accounting policies.

In our opinion, the consolidated financial statements on pages 52 to 76 present fairly, in all material respects, the consolidated financial position of the group as at 30 June 2018 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.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

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

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

Ernst & Young provides greenhouse gas inventory reporting and half year review reporting to the group. Partners and employees of our firm may deal with the group on normal terms within the ordinary course of trading activities of the business of the group. We have no other relationship with, or interest in, the group.

Key audit matters

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

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of the audit report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

1. Testing of Goodwill & Brand for impairment

Why significant

Refer to Note 4 of the financial statements.

Goodwill and Brand indefinite life intangible assets have been recognised in the Group financial statements with a value of \$781.8 million. These assets make up a significant portion (85%) of the Group's total assets.

The cash generating units identified by the Group to which Goodwill has been allocated for impairment testing represent 11 identifiable revenue generating operational units which, for management purposes, are allocated to three reportable segments.

As required by NZ IAS 38 *Intangible Assets*, the Group tests indefinite life intangible assets such as goodwill and brands for impairment annually in accordance with NZ IAS 36 *Impairment of Assets*.

This impairment assessment requires judgment. The key judgment is considered to be in relation to the allocation of intangible assets to cash generating units and the forecast earnings performance of the operating segments of the Group. Other judgments are the related discount rates and the terminal value growth rates.

How our audit addressed the key audit matter

Our work focused on understanding the methodology and calculation used in the Group's impairment assessment, as well as examining significant inputs at an appropriate level for each component of goodwill and brand. In obtaining sufficient audit evidence we:

- assessed the process for determining the cash generating units and considered whether the business has changed requiring these to be re-assessed;
- assessed the earnings forecasts included in the impairment model with reference to actual historical earnings;
- tested, with involvement from our valuation specialists, the impairment calculations including the application of discounting of future cash flows, the calculation of terminal values and the utilisation of actual net asset values for testing;
- involved our valuation specialists to assess the growth rates, including the terminal growth rate and discount factors applied in consideration of relevant comparators;
- performed a sensitivity analysis for movements in key assumptions used in the calculation; and
- evaluated the adequacy of the related financial statement disclosures.

2. Capitalised Platform Development Costs

Why significant

Refer to Note 4 of the financial statements.

The Group capitalises costs for internally developed software and then amortises the software over its estimated useful life. In the year to 30 June 2018, \$22.9 million of costs were capitalised to Platform Development costs. The net book value of Platform Development assets at 30 June 2018 was \$36 million. \$19.9 million of amortisation costs were recognised in the statement of comprehensive income for the year ended 30 June 2018.

The Group's process for calculating the amount of internally developed platform costs to be capitalised is judgmental and involves estimating the hours staff spend developing software and determining the costs attributable to that time.

The Group's assessment of the economic useful life of the software is judgmental, taking into consideration the best available evidence on market developments, the nature of the developments capitalised, the approach adopted in development and the demand for the underlying services recognised by the Group.

How our audit addressed the key audit matter

Our work on capitalised platform development costs focused on the Group's process for identifying relevant projects that contributed to the value of the capitalised platform development costs, capturing hours relevant to internally developed software and the calculation of the directly attributable cost of these hours. We also focused on the amortisation period established and applied for those costs. In obtaining sufficient audit evidence, we:

- checked the job descriptions for a sample of staff that had time capitalised in the period to assess whether they were appropriate for inclusion in the cost of internally developed software;
- understood a sample of projects which were assessed as being capital in nature and assessed these against the requirements for capitalisation in accordance with NZ IAS 38 *Intangible Assets*;
- checked the cost rates applied to staff hours back to supporting payroll information drawn from the payroll business process over which we assessed the design and operating effectiveness of relevant controls;
- substantiated the costing of a sample of other (non-payroll) directly attributable costs;
- checked the timeliness of capitalisation of projects considering whether this reflects the economic utilisation of the asset;
- assessed the period of time over which development costs are amortised in consideration of the economic renewal period required for this development and industry comparator useful life assessments; and
- performed a recalculation of the amortisation expense based on the carrying value of each capitalised item and the assessed useful economic life.

Information other than the financial statements and auditor's report

The directors of the company are responsible for the Annual Report, which includes information other than the consolidated financial statements and auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

If, based upon the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Directors' responsibilities for the financial statements

The directors are responsible, on behalf of the entity, for the preparation and fair presentation of the consolidated financial statements in accordance with 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 financial statements that are free from material misstatement, whether due to fraud or error.

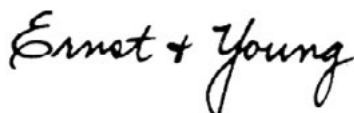
In preparing the consolidated financial statements, the directors are responsible for assessing on behalf of the entity the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors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

Auditor's responsibilities for the audit of the financial statements

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

A further description of the auditor's responsibilities for the audit of the financial statements is located at the External Reporting Board's website: <https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/>. This description forms part of our auditor's report.

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



Chartered Accountants
Wellington
21 August 2018